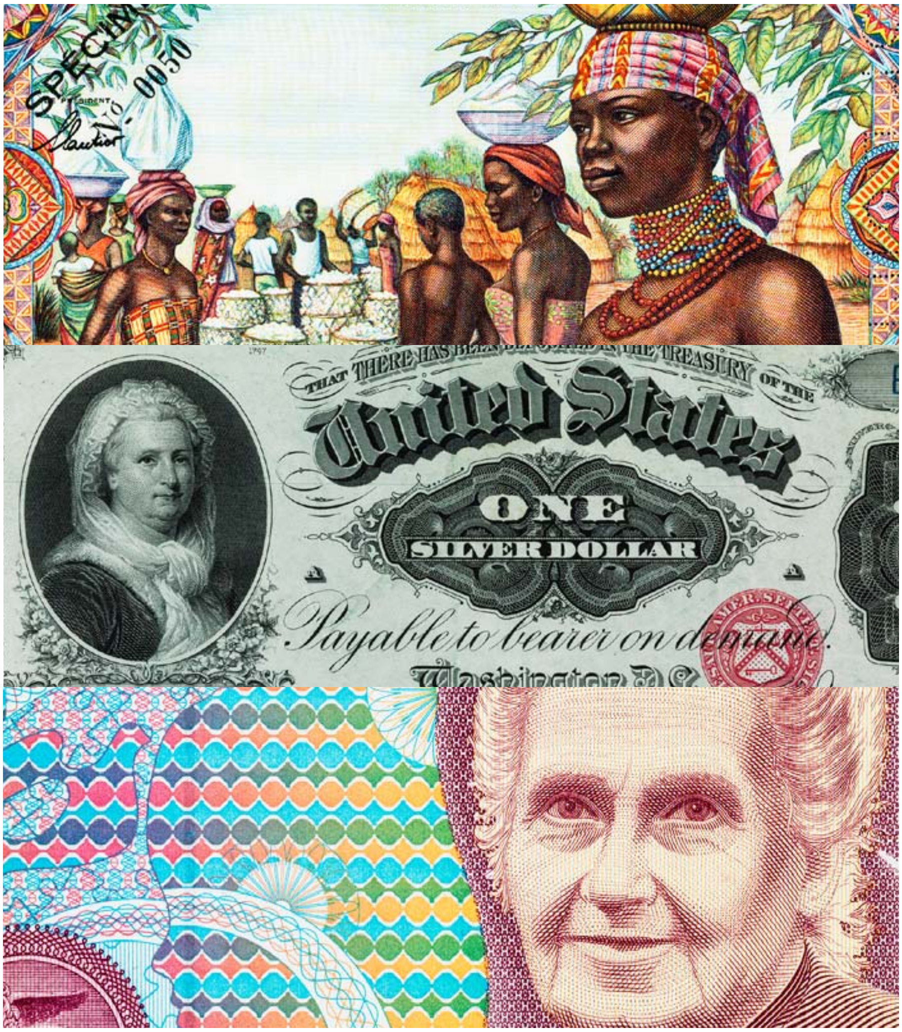
Financial History

The magazine of the Museum of American Finance



Women on Money

The North Carolina Gold Rush

Andrew Brimmer, First African American Fed Governor

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FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

in association with the Smithsonian Institution

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MUSEUM OF AMERICAN FINANCE

Smithsonian Affiliate

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IN THIS ISSUE DEPARTMENTS

ON THE COVER

Images of women on money from around the world and through history, on view at the National Museum of American History. See article, page 20.

Images: The Numismatic Collection, National Museum of American History, Smithsonian Institution

2016 Developments and Opportunities

Message to Members

David J. Cowen | President and CEO

Welcome to the first all-digital edition of *Financial History* magazine. I have previously detailed our decision to move in this direction, and while it was not an easy one, one immediate benefit is that you are now looking at full-color editions for every issue.

As we move towards the fall we start to prepare for our main fundraiser — our annual gala. We continue to attract high-level honorees and have done so again for our 2017 Whitehead Award for Distinguished Public Service and Financial Leadership. Larry Summers, former Secretary of the Treasury, has graciously accepted to receive this award, and we look forward to honoring him in January. Larry joins our previous winners of Robert Rubin, David Rubenstein, Duncan Niederauer, William Harrison, Felix Rohaytn, Pete Peterson, William Donaldson, Paul Volcker and the late John Whitehead, for whom the award was named. At our most recent gala we also instituted a new Financial Innovation Award, and I am pleased to announce that we will be naming that award after our inaugural honoree, Charles Schwab.

I am also excited to announce that our newest Board member is Anthony Scaramucci of Skybridge Capital. Although he just joined the Board in May, Anthony is already making a significant impact. He is a well-known fund of funds manager and is very passionate about the industry. We explained to Anthony our dream to make admission to the Museum free, so that all visitors can see the value of finance to building our nation's economy. We know that when we consistently offer free days, it increases the number of visitors dramatically. Our $8 admission price, despite being modest, is a barrier to entry for many. And given our revenue challenges, offering free days without funding has not been possible. Anthony reflected on this and, starting in 2017, his firm will underwrite one free admission day of the week. Moreover, he is assisting us in identifying other firms and individuals who may be interested in following his lead. Please let me know if your firm would like to join Skybridge in underwriting one free admission day of the week.

We recently learned that Chuck Royce of The Royce Funds will again underwrite a project for the Museum. Building upon the success of the *Genealogy of American Finance* book, Chuck will underwrite a second research project pertaining to the history of financial firms. The project, entitled "Where are they now? The Ford IPO: Banking Consolidation in the 20th Century," will explore what happened to the historic American underwriting firms of the 20th century. Starting with the 205 firms listed on the 1956 Ford Motor Company IPO tombstone, we will reconstruct a historical narrative of each bank from its origin to its demise (or its current incarnation).

The International Federation of Finance Museums (IFFM) is set for its annual meeting, which will be held this September in Mexico City. Andrea de Cholnoky, the vice chair of our Board, will once again represent our Museum. Andrea represented us well in 2015 in China, and we look forward to hearing from her about what our friends around the globe are currently working on in terms of exhibits and financial literacy.

The Spring edition of the Smithsonian Affiliations newsletter featured a cover story on the "Worth its Weight" exhibit.

Lastly, our "Worth Its Weight: Gold from the Ground Up" exhibit continues to garner attention and will be on view through the end of the year. The exhibit was recently featured on the cover of the Smithsonian Affiliations newsletter, *The Affiliate,* which has wide readership in the museum community. If you have not yet seen this exhibit, I encourage you to do so, as it is our largest and most popular exhibit to date. $

AUG 2 1909 The Indian Head cent that was minted from 1859 to 1909 is replaced by the Lincoln cent, making the Indian Head cent a popular collector's item.

AUG 5 1997 The Taxpayer Relief Act of 1997 becomes Federal law, creating the Roth IRA for middle class Americans to accumulate tax-free savings.

MoAF Exhibits Come to Life with New Audio Tour

This summer, the Museum launched a 12-stop audio tour of its permanent exhibits. The tour was developed in partnership with Antenna — a leading innovative multi-media story-telling company — and is narrated by a variety of experts including the Museum's president and curators, as well as CNN founding financial editor Myron Kandel and architectural historian Damien Cregeau.

The audio tour features the backstories of several of the Museum's most popular collections and exhibitions, including objects from the Crash of '29; a stock certificate issued to Ponzi scheme artist Bernie Madoff; rare high-denomination currency; and the solid gold and jewel encrusted Monopoly set by artist Sidney Mobell, on loan from the Smithsonian's National Museum of Natural History.

"There is so much more to these objects than we can include on printed labels, so the audio guides bring the exhibits to life in new and exciting ways," said Museum President David Cowen. "I believe the guides will really enhance our overall visitor experience."

The audio guides are available for visitors to rent on a first come, first served basis for $2 per person. MoAF members and visitors with visual or other impairments will be granted free usage of the guides. This program is sponsored by Con Edison and is supported, in part, by public funds from the NYC Department of Cultural Affairs, in partnership with the City Council. $

MoAF CORPORATE AND FOUNDATION SUPPORT

The Museum gratefully recognizes the support of the following corporate funders during the past year. Their generosity helps advance our commitment to preserving, exhibiting and teaching the power and value of American finance.

- Abner Herrman & Brock, LLC
- The Adirondack Trust Company
- The American-Scottish Foundation
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- Barrett Asset Management
- Bloomberg Philanthropies
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- Capco
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- The Clearing House
- CME Group
- Consolidated Edison
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- Davis Polk & Wardwell LLP
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- Friedman Family Foundation
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- The Gabelli Funds
- Goldman Sachs
- Guardian Life
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- William Penn Foundation

► For information about corporate or foundation support, please contact Jeanne Baker Driscoll, Director of Development at (212) 908-4694 or jdriscoll@moaf.org.

AUG 11 1948 President Harry S. Truman announces that he authorized a $65 million interest-free loan to the United Nations. The money is to be used for building its headquarters in New York City.

AUG 15 1971 President Nixon, alarmed at the roughly 4.5% annual inflation rate, issues an executive order declaring a 90-day freeze on wages and prices.

“Man with a Plan” Exhibit Honors the Legacy of Alexander Hamilton

By Sarah Poole

In commemoration of the 212th anniversary of the death of Alexander Hamilton, the Museum opened a new exhibit in the Alexander Hamilton Room on July 12. “Man with a Plan” honors the legacy of our nation’s financial founding father through exclusive documents from the Museum’s permanent collection.

The exhibit begins with an explanation of how the nation faced financial difficulties during the American Revolution. In a letter addressed to Captain Richard Varick, Colonel John Nicolson describes the desperate state of his regiment: “As the men of my regiment are in general without cloaths [*sic*] sufficient to enable them to do duty and many of them almost naked… The major part of the soldiers have had no pay for three months and some of the officers six.”

The Continental Congress and individual states tried to raise money for the war effort in various ways, including holding lotteries, issuing bonds and turning to foreign funders. Nevertheless, the United States faced a significant debt crisis by the end of the war.

As the first US Secretary of the Treasury, appointed by President George Washington, Hamilton was tasked with assessing the debt problem and proposing a solution. He did this in his 1790 *Report on Public Credit*. In the report, Hamilton argues that it was the responsibility of the federal government to honor the leftover Revolutionary War debt at its full value because “it was the price of liberty.” All Continental, state and foreign debt was assumed and reissued as United States debt. Original examples of the *Report on Public Credit* and US bonds are on display in the exhibit.

Hamilton’s plan financially unified the nation, strengthened its credit and still serves as the foundation for the American financial system today. The exhibit also explores Hamilton’s life outside of his role as financial genius.

For example, a Treasury Circular regarding exports and duties signed by Hamilton represents the daily responsibilities of his department. After leaving the Treasury, Hamilton then served as Major General of the Army, and a pay order he issued during this time represents the later years of his career.

Additionally, the exhibit profiles a number of key figures in Hamilton’s life. A display is dedicated to the Marquis de Lafayette, who played a key role in supporting the Revolution and was one of Hamilton’s good friends. One report details the money Lafayette personally spent on the American cause.

Another case is dedicated to the rivalry between Hamilton and Vice President Aaron Burr. The notorious Burr is represented by a letter he wrote while serving as a lawyer in New York. Burr shot Hamilton in a famous duel on July 11, 1804, and Hamilton died the following day. Other related items on view are historical replicas of the dueling pistols, as well as an original copy of Hamilton’s obituary and

Robert Dinkelmann

The 1880 study of Carl Conrads’ statue of Alexander Hamilton stands outside the Museum’s Alexander Hamilton Room.

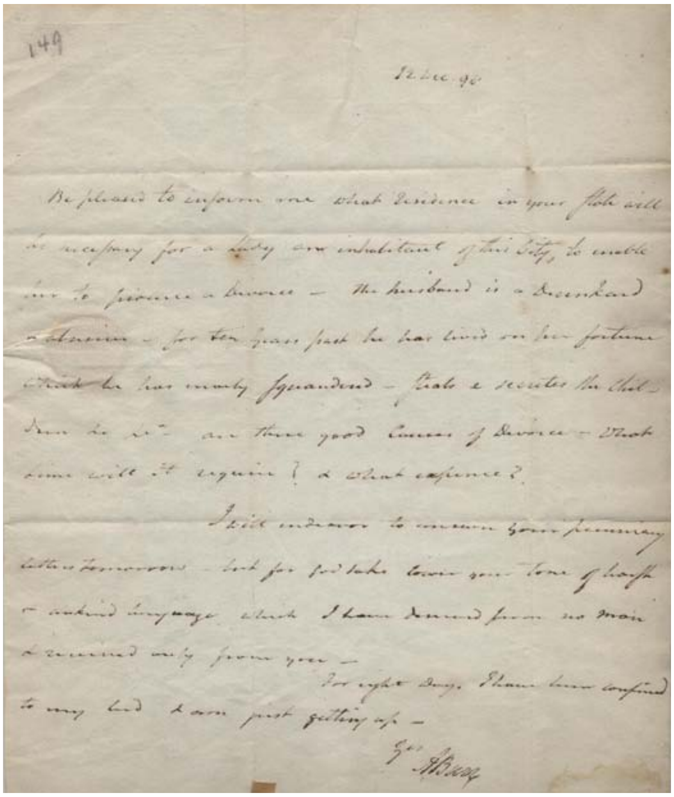
a rare 1804 collection of documents pertaining to his death including his last will and testament, the eulogies of his friends and colleagues, and detailed information about his funeral ceremony.

The Museum has seen a recent surge of interest in Hamilton fueled by the hit Broadway musical bearing his name. With this exhibit, it is our hope that we can offer an in-depth study of Hamilton’s visionary financial brilliance and show our visitors how his contributions to our young nation benefit our society today. $

Sarah Poole is the Museum’s Collection Manager and one of the curators of “Man with a Plan,” now on view in the Alexander Hamilton Room.

AUG 29 1861 The Treasury Department begins producing US currency in the basement of the Main Treasury Building.

AUG 18 1982 Daily trading volume on the NYSE exceeds 100 million shares for the first time, as 132,681,120 shares change hands.



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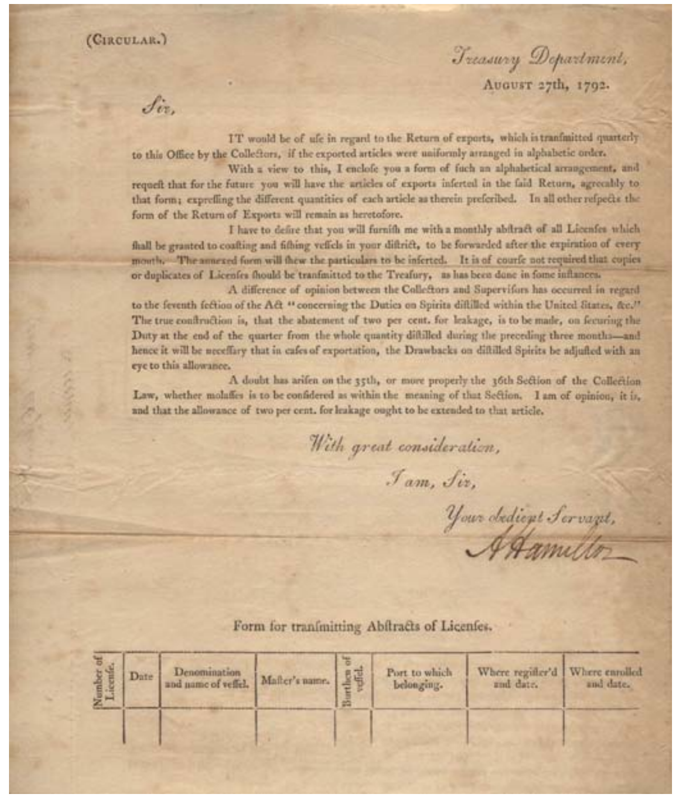
12 Dec. 98

Be pleased to inform me what Residence in your State will be necessary for a lady an inhabitant of this City, to enable her to procure a divorce — the husband is a drunkard — & now — for ten years past he has lived on her fortune which he has nearly squandered — State & recites the Children &c — are these good Causes of Divorce — What time will it require? & what expence?

I will endeavor to answer your pressing letter tomorrow — but for God sake lower your tone of haughty — unkind language which I have received from no man & received only from you —

For eight days I have been confined to my bed & am just getting up —

Yrs A Burr



(CIRCULAR.)

Treasury Department,
AUGUST 27th, 1792.

Sir,

IT would be of use in regard to the Return of exports, which is transmitted quarterly to this Office by the Collectors, if the exported articles were uniformly arranged in alphabetic order.

With a view to this, I enclose you a form of such an alphabetical arrangement, and request that for the future you will have the articles of exports inserted in the said Return, agreeably to that form; expressing the different quantities of each article as therein prescribed. In all other respects the form of the Return of Exports will remain as heretofore.

I have to desire that you will furnish me with a monthly abstract of all Licenses which shall be granted to coasting and fishing vessels in your district, to be forwarded after the expiration of every month. The annexed form will shew the particulars to be inserted. It is of course not required that copies or duplicates of Licenses should be transmitted to the Treasury, as has been done in some instances.

A difference of opinion between the Collectors and Supervisors has occurred in regard to the seventh section of the Act "concerning the Duties on Spirits distilled within the United States, &c." The true construction is, that the abatement of two per cent. for leakage, is to be made, on securing the Duty at the end of the quarter from the whole quantity distilled during the preceding three months—and hence it will be necessary that in cases of exportation, the Drawbacks on distilled Spirits be adjusted with an eye to this allowance.

A doubt has arisen on the 35th, or more properly the 36th Section of the Collection Law, whether molasses is to be considered as within the meaning of that Section. I am of opinion, it is, and that the allowance of two per cent. for leakage ought to be extended to that article.

With great consideration,

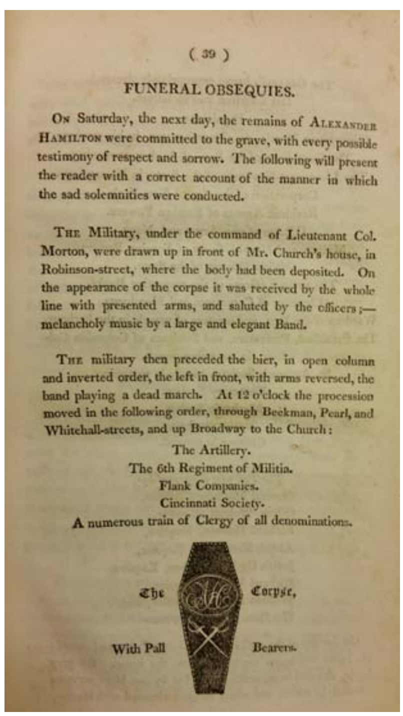
I am, Sir,

Your obedient Servant,

A Hamilton

Form for transmitting Abstracts of Licenses.

Number of License.	Date	Denomination and name of vessel.	Master's name.	Burthen of vessel.	Port to which belonging.	Where register'd and date.	Where enrolled and date.



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FUNERAL OBSEQUIES.

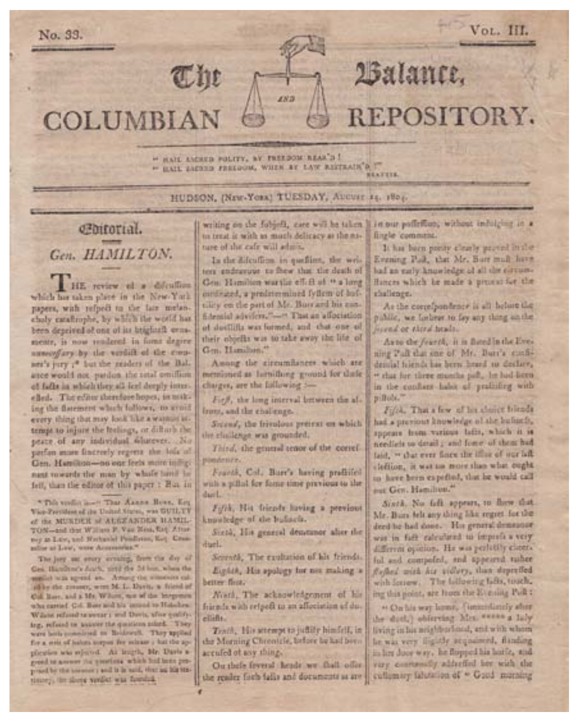
ON Saturday, the next day, the remains of ALEXANDER HAMILTON were committed to the grave, with every possible testimony of respect and sorrow. The following will present the reader with a correct account of the manner in which the sad solemnities were conducted.

THE Military, under the command of Lieutenant Col. Morton, were drawn up in front of Mr. Church's house, in Robinson-street, where the body had been deposited. On the appearance of the corpse it was received by the whole line with presented arms, and saluted by the officers;—melancholy music by a large and elegant Band.

THE military then preceded the bier, in open column and inverted order, the left in front, with arms reversed, the band playing a dead march. At 12 o'clock the procession moved in the following order, through Beekman, Pearl, and Whitehall-streets, and up Broadway to the Church:

The Artillery.
The 6th Regiment of Militia.
Flank Companies.
Cincinnati Society.
A numerous train of Clergy of all denominations.

The Corpse,
With Pall Bearers.



No. 33. VOL. III.

The Balance, and COLUMBIAN REPOSITORY.

"HAIL SACRED POLITY, BY FREEDOM REAR'D!
"HAIL SACRED FREEDOM, WHEN BY LAW RESTRAIN'D!"
BEATTIE.

HUDSON, (NEW-YORK) TUESDAY, AUGUST 14, 1804.

Editorial.

Gen. HAMILTON.

THE review of a discussion which has taken place in the New-York papers, with respect to the late melancholy catastrophe, by which the world has been deprived of one of its brightest ornaments, is now rendered in some degree *unnecessary* by the verdict of the coroner's jury;* but the readers of the Balance would not pardon the total omission of facts in which they all feel deeply interested. The editor therefore hopes, in making the statement which follows, to avoid every thing that may look like a wanton attempt to injure the feelings, or disturb the peace of any individual whatever. No person more sincerely regrets the loss of Gen. Hamilton—no one feels more indignant towards the man by whose hand he fell, than the editor of this paper: But in writing on the subject, care will be taken to treat it with as much delicacy as the nature of the case will admit.

In the discussion in question, the writers endeavour to shew that the death of Gen. Hamilton was the effect of "a long continued, a predetermined system of hostility on the part of Mr. Burr and his confidential advisers."—"That an association of duellists was formed, and that one of their objects was to take away the life of Gen. Hamilton."

Among the circumstances which are mentioned as furnishing ground for these charges, are the following:—

First, the long interval between the affront, and the challenge.

Second, the frivolous pretext on which the challenge was grounded.

Third, the general tenor of the correspondence.

Fourth, Col. Burr's having practiced with a pistol for some time previous to the duel.

Fifth, His friends having a previous knowledge of the business.

Sixth, His general demeanor after the duel.

Seventh, The exultation of his friends.

Eighth, His apology for not making a better shot.

Ninth, The acknowledgement of his friends with respect to an association of duellists.

Tenth, His attempt to justify himself, in the Morning Chronicle, before he had been accused of any thing.

On these several heads we shall offer the reader such facts and documents as are in our possession, without indulging in a single comment.

It has been pretty clearly proved in the Evening Post, that Mr. Burr must have had an early knowledge of all the circumstances which he made a pretext for the challenge.

As the correspondence is all before the public, we forbear to say any thing on the *second* or *third* heads.

As to the *fourth*, it is stated in the Evening Post that one of Mr. Burr's confidential friends has been heard to declare, "that for three months past, he had been in the constant habit of practising with pistols."

Fifth. That a few of his choice friends had a previous knowledge of the business, appears from various facts, which it is needless to detail; and some of them had said, "that ever since the issue of our last election, it was no more than what ought to have been expected, that he would call out Gen. Hamilton."

Sixth. No fact appears, to shew that Mr. Burr felt any thing like regret for the deed he had done. His general demeanor was in fact calculated to impress a very different opinion.

* This verdict is—"That AARON BURR, Esq. Vice-President of the United States, was GUILTY of the MURDER of ALEXANDER HAMILTON—and that William P. Van Ness, Esq. Attorney at Law, and Nathaniel Pendleton, Esq. Counsellor at Law, were Accessories."

Clockwise from top left: 1798 letter signed by Aaron Burr; 1792 Treasury Department Circular signed by Alexander Hamilton; Alexander Hamilton's obituary, published in *The Balance and Columbian Repository,* 1804; Page from a contemporary collection of documents pertaining to Hamilton's funeral, 1804.

AUG 24 1814 The Main Treasury Building in Washington is burned to the ground by the British.

AUG 29 1861 The Treasury Department begins producing US paper currency.

SEP10 1960 Iran, Iraq, Kuwait, Saudi Arabia and Venezuela begin meeting in Baghdad to form the Organization of the Petroleum Exporting Countries (OPEC).

MoAF Hosts "Museum Hack: Wall Street Edition" Event for Aspiring Financiers

By Kristin Aguilera

On July 13, the Museum co-hosted a networking event and cocktail reception with Museum Hack, an organization that provides interactive game-based museum experiences. The event attracted a crowd of more than 75 Wall Street interns and emerging professionals, who learned astonishing finance facts and the seldom heard gossip behind America's financial system and its founding father through a series of interactive tours and games.

Museum Hack tour guide Anna Bianco said her team created 20-minute mini tours of the collection that focused on the wacky stories behind some of the most visually stunning objects the Museum has to offer.

"We dished dirt on everything from gold bars to gold toilets, culminating in a group game that encouraged guests to estimate the value of some of Sidney Mobell's stranger creations and compete for a fabulous prize from the Museum Shop," Bianco said. "Overall, we had a great time exploring the collection, and the eager and interested attendees only made the evening more fun!"

For those who were unable to attend in person, the mini tours were also shown live on Periscope, with approximately 300 people viewing the tours remotely. The Museum hopes to offer similar events in the future to continue to engage younger audiences with its collection, exhibits and mission. $

Museum Hack guides Zak Martellucci and Anna Bianco prepare for the event.

SEPTEMBER–OCTOBER EVENTS

Sep 7	Lunch and Learn: Author Haley Sweetland Edwards on *Shadow Courts: The Tribunals That Rule Global Trade*. Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Sep 17, Oct 5, 8	Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes Museum admission.
Oct 5	Lunch and Learn: Michael van Biema on *Concentrated Investing: Strategies of the World's Greatest Concentrated Value Investors.* Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Oct 11	Lunch and Learn: Joe Jordan on Robert Benmosche and his book, *Good for the Money: My Fight to Pay Back America.* Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Oct 21–23	6th Annual Wall Street Collectors Bourse. Free and open to the public. For information, visit: www.wallstreetbourse.com.
Oct 21	Lunch and Learn: Leonard Zax, president of the Hamilton Partnership, on "Hamilton in Paterson: America's First Tech Incubator." 12:30 – 1:30 p.m. Free admission.
Oct 27	Evening Lecture Series: "Your Vote. Your Money." Fireside chat with Strategas Chairman and CEO Jason Trennert followed by panel discussion highlighting the impact of the election on the markets and investor sentiment as viewed through macro analysis and data analytics. Program followed by Q&A and reception. 6:00 – 8:00 p.m. Admission $25; members and students free.
Oct 29	Annual Great Crashes Walking Tour. 1:00 – 4:00 p.m. $15 includes Museum admission.

For more information or to register online, visit www.moaf.org/events.

SEP 11 1789 Alexander Hamilton is sworn in as the nation's first Secretary of the Treasury.

SEP 24 1869 Wall Street's first "Black Friday." After word leaks that speculator Jay Gould, who was trying to "corner" the gold market, had sold out two days earlier, gold — and stock — prices plummet.

Conquistadorial Entrepreneurship: Risk Bearers with Harquebuses

By Brian Grinder and Dan Cooper

Spanish conquistadors, according to popular lore, were professional soldiers in the service of the king of Spain. These legendary figures conquered Central and South America by the authority of the pope, in the name of the king. Military discipline, along with superior technology, allowed them to subdue Aztec and Incan civilizations with relative ease. Thus, a few hundred well-trained Spanish conquistadors were able to defeat thousands of indigenous warriors and acquire vast areas of land and oceans of gold for the king of Spain.

But the conquistadors were not professional soldiers. In his book, *Seven Myths of the Spanish Conquest,* Matthew Restall describes this popular view as the "myth of the king's army." He argues that at the beginning of Spain's South American expansion, the military revolution that would help create the professional soldier was "still in its genesis."

According to Latin American historian James Lockhart, the conquistadors "semi-deliberately" chose not to apply the term "soldier" to themselves because: "It implied a person who was being paid a salary and therefore was another person's direct dependent, with little claim to direct rewards." Lockhart points out that the members of the early expeditions were not paid; instead, they were partners in a joint enterprise and expected to share in the profits. According to Lockhart, early conquistadors preferred the term *Compañero*, which means partner or companion, to describe themselves.

In an extensive analysis, Lockhart identifies the occupations of 47 of the founders of Panama (no such data exists for the men who accompanied Pizarro to Peru). Only three were engaged in military-type occupations, while 28% were described by Lockhart as "merchants, managers and entrepreneurs," 26% were clerks or notaries and the remaining 40% were described as artisans, which included tailors, carpenters, seamen, stonemasons, barbers and trumpeters. Although they were well armed, they were not a professional army.

Conquistator Francisco Pizarro

Historians of the Spanish conquest of South America widely agree that the conquistadors were of an entrepreneurial, rather than a military, bent. For instance, Matthew Restall asserts:

> To some extent, all participants were investors in commercial ventures that carried high risks but potentially the highest of returns. Spaniards called these ventures "companies." While powerful patrons played important investment roles, it was the captains who primarily funded companies and expected to reap the greatest rewards. As the governor of Panama, Pedrarias de Avila, told King Charles of early Conquest expeditions into Nicaragua and Colombia, "it was done without touching your majesty's royal treasury." The spirit of commercialism thus infused conquest expeditions from start to finish, with participants selling services and trading goods with each other throughout the endeavor. The conquerors were, in other words, armed entrepreneurs."

In his book, *The Last Days of the Incas*, Kim MacQuarrie echoes Restall:

> The leaders of most conquest expeditions, beginning in the 1520s, actually formed a company that was normally drawn up as a contract and was duly notarized. The participants thus became partners in the company and were the equivalent of shareholders. Unlike companies dedicated to providing services or manufactured goods, however, it was understood from the outset that the conquest company's economic plan was predicated upon murder, torture and plunder. Conquistadors thus were not paid soldier-emissaries of a distant Spanish king, but were actually autonomous participants in a new kind of capitalist venture; in short, they were armed entrepreneurs.

Hugh Thomas writes, "In Peru, the allocation of gold and silver continued. Many poor conquistadors became newly-rich entrepreneurs overnight. Thus, in Cuzco in March 1534, a quantity of silver estimated to be four times what had been distributed in Cajamarca was allocated by Pizarro with the help of Valverde, according to their judgment of each soldier's merits, extra shares being given to those who seemed to deserve it."

Finally, Rafael Varón Gabai notes of Francisco Pizarro: "…the outstanding position achieved by Peru's future conqueror was a result of his entrepreneurial and political ability."

While historians agree about the entrepreneurial nature of the conquistadors, are their counterparts in the field of entrepreneurship of the same mind? Would a conquistador fit today's definition of an entrepreneur?

In the 16th century, according to economic historians Robert Hebert and Albert Lind, the term "entrepreneur" usually described a government contractor in charge of constructing military fortifications or other public works. Thus, the conquistadors' contemporaries would not have described them as entrepreneurs.

However, as Hebert and Lind note, the emphasis in entrepreneurial studies has shifted over time from risk-bearing to innovation to "perception and adjustment in an equilibrating framework." The conquistadors, as we shall see, definitely bore risk, innovated and adjusted to changing conditions.

Babson College *Emeritus* Professor of Entrepreneurship William Bygrave has defined the entrepreneur broadly as "someone who perceives an opportunity and creates an organization to pursue it." According to this definition, the conquistadors qualify as entrepreneurs.

The opportunity for wealth, land and a new social standing inspired those who chose to risk the journey to the New World and join an expedition to parts unknown. The creation of organizations to pursue these opportunities soon followed.

In Pizarro's case, he formed the Company of the Levant with his business partner and second-in-command, "the one-eyed" Diego De Almagro, for the express purpose of exploring and conquering Peru. Pizarro, Almagro and Hernando Luque, a local Panamanian financier, provided the majority of the financing for the expedition. Other members of the expedition would receive a share in the potential profits based on their own contribution to the expedition. A man with no assets other than himself could expect to receive less than a man with a horse or a slave.

Contribution also meant that a member had to be present at the taking. In 1532, Almagro stayed behind in Panama to recruit more men and obtain additional ships and supplies while Pizarro set out with fewer than 200 men on the company's third expedition to Peru. Almagro's absence resulted in extremely adverse financial consequences for him when Pizarro encountered and captured the Aztec king Atahualpa at Cajamarca.

The men who were with Pizarro at Cajamarca when Atahualpa was captured were rewarded handsomely for their efforts, but the tardy Almagro and the men who came with him received only a token reward from Atahualpa's ransom.

Pizarro's slight of his long-time business rival at Cajamarca began a rift between the two men that would ultimately prove fatal to both. Almagro's last hope was the grant he had been given by Charles V to explore Chile. Unfortunately, there was no gold in Chile. When Almagro returned from an unsuccessful Chilean expedition, he chose to fight

Engraving of Francisco Pizarro and his men, 1894.

Pizarro's forces for the disputed city of Cuzco. It was unclear from the king's edict whether Cuzco was to remain in Pizarro's control or whether it should be under Almagro's jurisdiction. The ensuing battle led to the defeat and capture of Almagro by Pizarro's brother Hernando, who summarily executed him.

Although the Company of the Levant was wildly successful, the end result for many of those involved, including Diego de Almagro, was less than optimal. Did the conquistadors take on too much risk? What can today's entrepreneur learn from their long ago adventures in the New World? We will take up these questions in the next installment of *Educators' Perspective.* $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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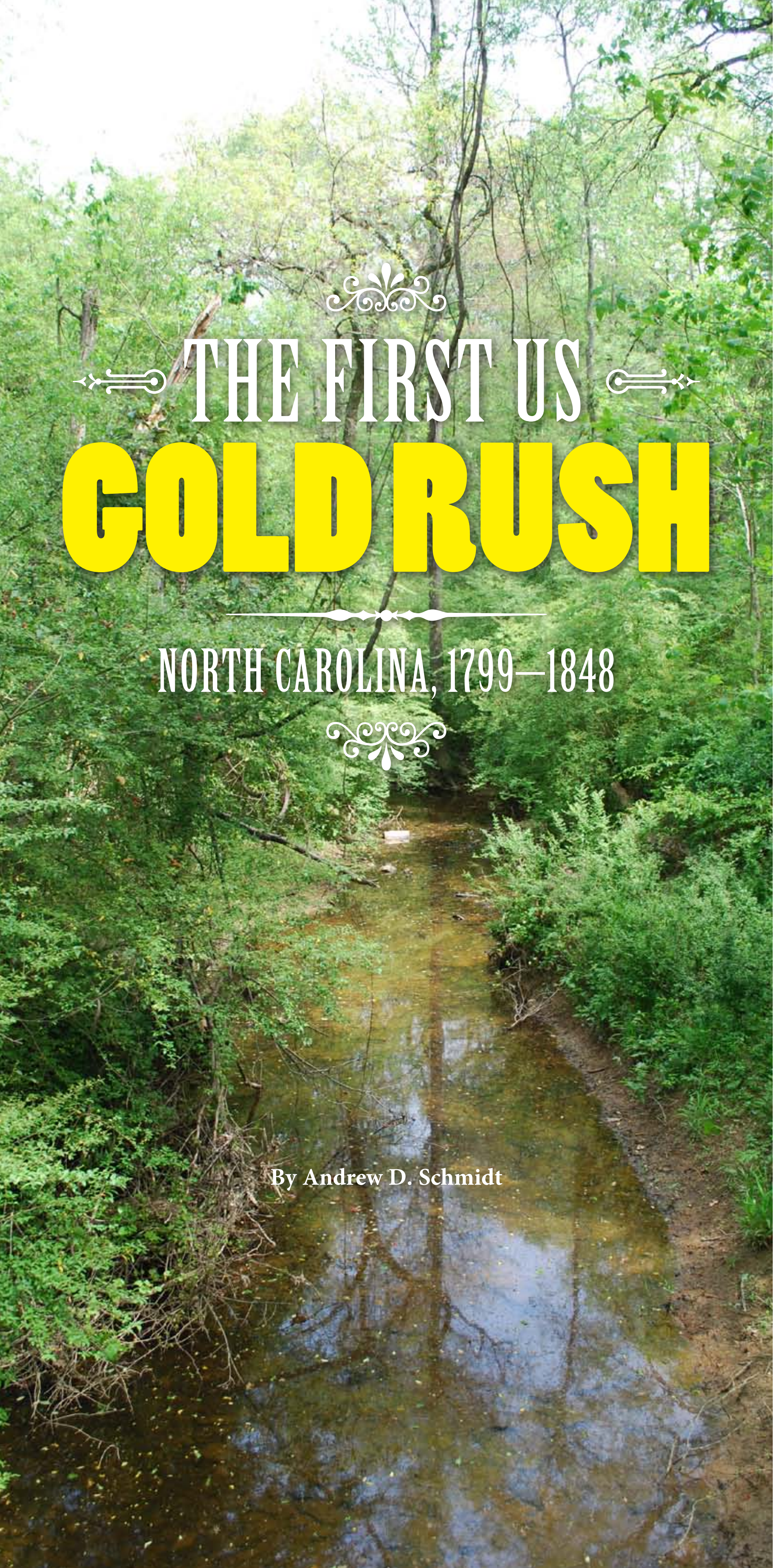


THE FIRST US GOLD RUSH

NORTH CAROLINA, 1799–1848

By Andrew D. Schmidt

The Little Meadow Creek that flows through the Reed Mine. It was along this creek that the original gold was found by 12-year-old Conrad Reed in 1799.

Most Americans have heard of the California Gold Rush of 1849–55, and many have heard of the Alaskan Gold Rush of 1896–99 as well. However, North America's first gold rush — in North Carolina — has been all but forgotten.

Gold rushes have been important occurrences in our nation's history. In addition to the financial aspects of finding the "yellow metal" and its subsequent uses in bullion, coins, industry and jewelry, the rushes stimulated the migration of people to new geographic regions. In each case, the establishment of trade for the local economies in those regions was strengthened as a result.

The three rushes all started under similar circumstances in the way that the gold was discovered — by the finding of "placer" gold, whereby the heavy yellow metal lies deposited in streams or rivers. Because of the weight, mining pans were used in the most primitive method of sorting the gravel and sand out, leaving flakes (or small nuggets) of gold on the pan's bottom. In both California and North Carolina, the finds were accidental.

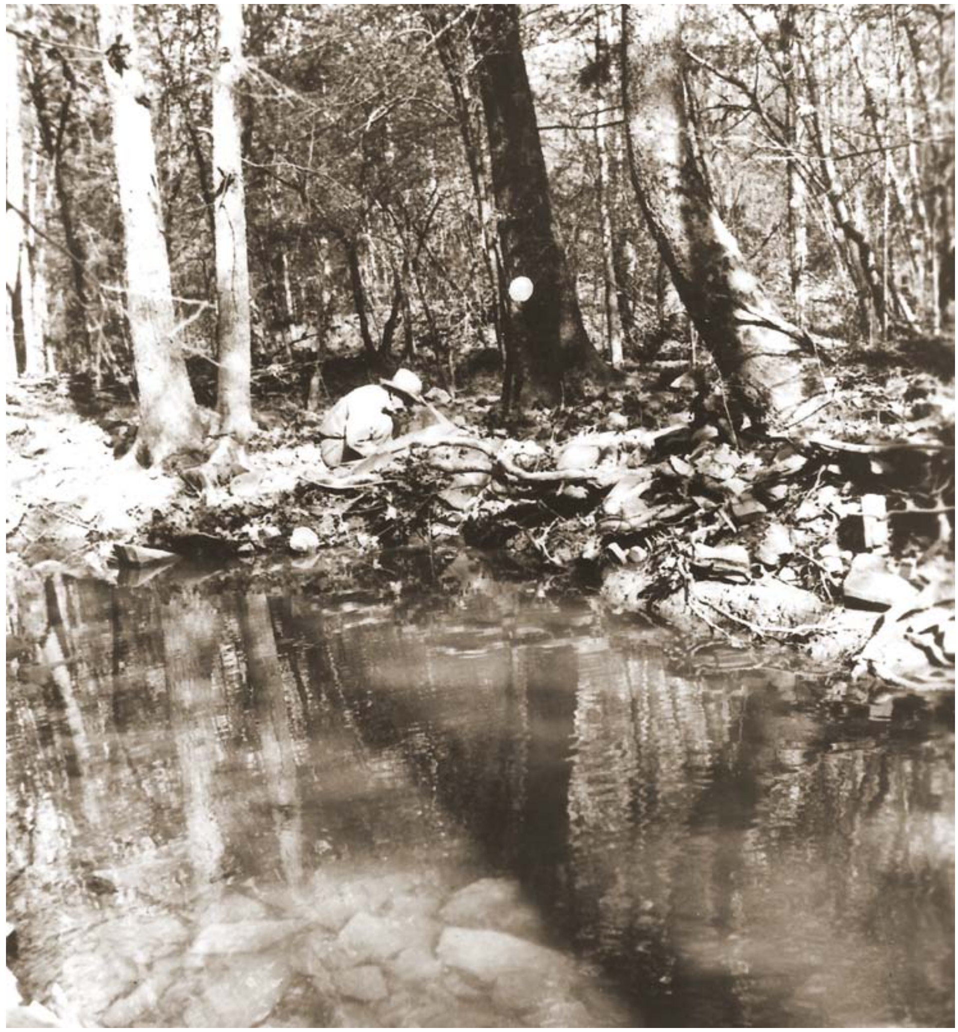
In the case of the 1849 California Gold Rush, James Marshall, in the employ of Captain John Sutter, found a gold nugget on January 24, 1848 in the spill-way of Sutter's saw mill in the South fork of the American River near the town of Coloma. The mass migration that followed gave birth to the growth of Northern California (especially in nearby San Francisco, where between January 1848 and December 1849, the population increased from 1,000 to 25,000). It also hastened the establishment of the state of California, which joined the union in 1850. Approximately 300,000 people migrated to California during the rush.

In the Canadian Yukon, on August 16, 1896, four family members of the American prospector George Carmack found gold along the banks of Rabbit Creek, a tributary of the Klondike River. Although the gold fields were located in the Yukon, the US city of Seattle established itself as the "Gateway to the Gold Fields." Some 30,000–40,000 prospectors used Seattle as

their launching point, buying their provisions for the trek to the Yukon. As a result, Seattle thrived. Approximately 100,000 people migrated to the Yukon altogether. The small Alaskan town of Skagway became the largest city in Alaska, as one of two major entry points to the gold fields, along with Dyea. Today, Skagway is a major tourist landing spot on the cruise lines; Dyea is largely a ghost town.

Prior to the major rushes of California and Alaska, North Carolina was the chief gold mining state in the nation. It was also, not coincidentally, the location of the first branch mint of the United States, which opened in Charlotte in 1837. Although cotton was more important than gold to Charlotte's economy, the rush brought miners, engineers and metallurgists to the state's largest city and is credited with the establishment of banks there. The rush also helped establish Charlotte as the main regional trading center, as miners from several counties brought their gold in to be assayed and smelted.

By some accounts, the North Carolina gold rush began on the farm of John Reed, a German born in Hesse-Cassel in the late 1750s. Reed had been conscripted into the Germany army (the Hessian militia) and had been loaned to the king of England, likely reaching America in 1778 to fight the colonists in the Revolutionary War. His loyalties, however, were not to the king; they were to the small farmers and colonists.



A miner alongside the Little Meadow Creek, which flows through the Reed Mine property.

Courtesy North Carolina State Archives, Department of Natural and Cultural Resources

Following the war, Reed traveled to North Carolina, where he established a farm near Charlotte after purchasing land from private parties and from the State of North Carolina through multiple land grants. Other Hessian families also settled nearby, leading to a flourishing German community.

According to legend, it was on Reed's farm—which Little Meadow Creek seasonally flows through—that his 12-year-old son, Conrad, was hunting fish with bow and arrow one Sunday morning in the spring of 1799. Conrad was accompanied by his sister and younger brother while their parents were at church. While fishing, Conrad saw "a yellow substance shining in the water," and he removed from the creek a gold nugget weighing some 17 pounds. His father could not identify the nugget, and it subsequently spent three years serving as a "useful doorstop" in the family home. Eventually, John Reed carried the piece to the nearby town of Concord to be inspected by a silversmith named William Atkinson, who misidentified the metal.

Finally, in 1802, Reed visited a Fayetteville jeweler, who informed him that it was indeed gold and asked him how much he wanted for it. Reed, thinking he would ask a "big price," suggested $3.50, which the jeweler immediately accepted. The nugget's value at the time was approximately $3,600. After realizing his mistake, the Reed family—and later their friends—began looking for more gold in the area. Many believe that Reed ultimately received additional payment from the jeweler, although contemporary records disagree on the amount; estimates range from $1,000 to $3,000.

But, as alluded to earlier, this story—while widely told—may be more legend than fact. The first verifiable, documented discovery of gold at the Reed Mine was not until November 1803, when a slave named Peter (who belonged to Reed's neighbor and business partner, Rev. James Love) found a 28-pound nugget worth more than $6,600 while working for the partnership. It was the largest nugget ever found east of the Mississippi River.

A contemporary newspaper article published in the *Raleigh Register and North-Carolina State Gazette* on December 5, 1803 mentions the Reed children discovering the first pieces of gold, but it only specifically mentions the recent discovery of the 28-pound nugget. According to Evin Burleson, an historic interpreter at the Reed Gold Mine:

> The "first discovery" story wasn't reported first. The first newspaper to mention the Reed Gold Mine, published in December 1803, mentions John Reed's children discovering the first pieces of gold, but only specifically mentions the recent discovery of the 28-pound nugget. The next mention of the Reed Mine, from January 1804,

details the "discovery of the first nugget." Prior to 1803, no record of gold being discovered exists. Technically, the first documented piece of gold is the 28-pound nugget found in 1803. Even the article on the first discovery claims a Reed child found the first gold in July 1803 (the date of 1799 may have been added to this story years later).

Regardless of the actual date and circumstances surrounding the discovery, it is a fact that gold had been discovered in Cabarrus County in the early 1800s. Since Reed and others had been searching for gold since 1803, word ultimately spread that fortunes could be found in that area. So began the North Carolina Gold Rush.

It took some time for the rush to gain momentum. For two decades — through 1824 — occasional placer mining on the Reed farm had yielded $100,000 in gold. But farming was still Reed's main occupation, and little technical innovation in gold mining occurred in the first quarter of the century. That changed in 1825, with the advent of mining gold from veins.

While it is an easier process than vein (or lode) mining, placer mining is inefficient. Vein mining requires more manpower and machinery, but it can ultimately be more profitable. Matthias Barringer found the first gold vein in Montgomery (now Stanly) County in 1825; other nearby land owners soon followed with discoveries of their own. The Barringer Gold Mining Company was the first mine to use vein mining and, as a result, North Carolina's gold output subsequently increased tremendously. According to some sources, gold mining became the fastest-growing enterprise in the state, surpassing farming.

Companies soon replaced individuals in the search for gold. The state incorporated the North Carolina Gold Mining Company in 1827 and within a few years chartered several other groups. The Reed Gold Mine remained a family-run business and did not employ the newer technologies until the 1830s, when underground mining replaced the placer method.

By 1832, more than 50 mines were operating in North Carolina, employing more than 25,000 people. Many experienced miners were recruited from Europe and South America to assist in the operations. Reed died in 1845, and his mine was sold in February 1846. Jacob L. Shinn, a lessee of surface mining rights, found the last

Courtesy North Carolina State Archives, Department of Natural and Cultural Resources

Jacob L. Shinn, a lessee of mining rights on the Reed Mine. He discovered the last great nugget weighing 23 pounds in 1896.

great nugget in the Reed Mine on April 9, 1896. It weighed 23 pounds.

The Reed Mine was seriously used for gold mining until the early 1900s, with the last underground mining occurring in 1912. As late in 1934, a few miners tried small-scale prospecting during the Great Depression. In 1966, the Reed Mine became a National Historic Landmark, and by 1999 more than 1.5 million people had visited it.

At the height of the North Carolina Gold Rush, more than 600 mines existed in the state, including the Russell Mine, the Rudisill, the Silver Hill and the Gold Hill Mining Company. Gold Hill began operations in 1851, when several local companies merged. The new company became

The North Carolina historical marker on the road leading to the Reed Mine.

the most productive and dependable in the state, with its underground operations reaching a depth of 425 feet in 1857.

The gold mined during the rush was made into jewelry, sent to Philadelphia for coins, sent to the western frontier, went to commercial houses or was exported to Europe for artistic and other purposes. From 1804 to 1827, the North Carolina mines supplied nearly all of the domestic gold for the US Mint in Philadelphia. The Reed Mine alone was the primary source prior to 1825.

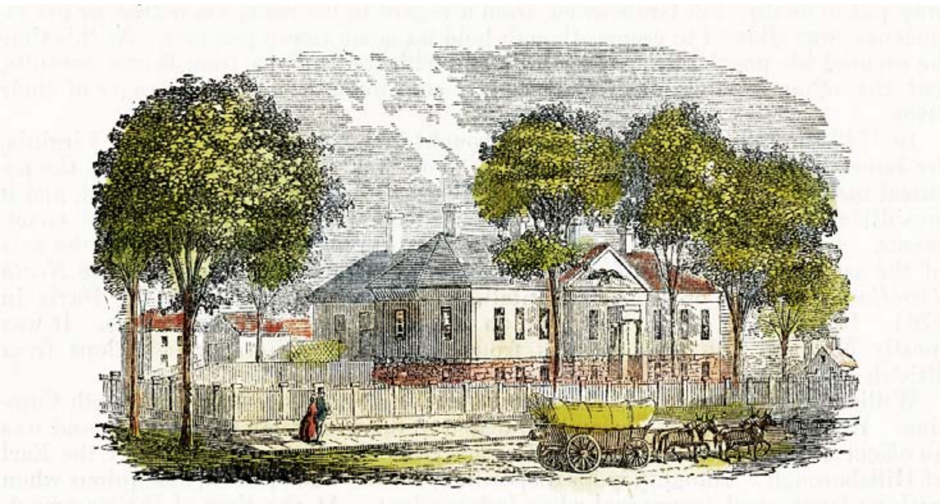
While some locals tried their hand at assaying and stamping the gold, the miners needed their gold to be accurately weighed, assayed and melted into bullion (bars or ingots). They also wanted an official seal of approval on their gold. For nearly 30 years only the US Mint in Philadelphia provided those services. The gold was transported a long way from Cabarrus County (over 500 miles) in strong boxes with special locks. Although distance, weather and travel conditions made it difficult for this transport, many efforts to secure a local branch of the US Mint failed.

It was not until a German immigrant, Christopher Bechtler, opened his private gold coin mint in 1831 at Rutherfordton (100 miles from Cabarrus County) that quality gold coins were locally produced. Bechtler's coins were widely accepted in trade and are today highly sought after by coin collectors.

In 1831, the Bechtler Mint produced the first US gold dollar (18 years prior to the US Mint), along with $2.50 and $5.00 gold pieces in 20, 21 and 22 karat fineness. In total, Bechtler minted over $3.5 million in coins, bars and ingots. It was the longest operating gold mint in the history of the United States. Even after the branch mints were established in the 1830s, the federal government did not interfere with the Bechtler Mint; it was widely known that their coins equaled or exceeded the quality of those produced by the US Mint, in terms of both fineness and weight. Bechtler and his son, Augustus, operated the mint until 1852.

On March 3, 1835, President Andrew Jackson signed a law authorizing three branch mints to be located in Charlotte, NC; New Orleans, LA; and Dahlonega, GA. The mints in Charlotte and Dahlonega were only authorized to mint gold coins, and the Charlotte Mint was the first to

Collection of The Mint Museum, North Carolina



Top: The Charlotte Mint, the first branch Mint to operate outside of Philadelphia. Construction began in 1836, and coinage began the following year. Bottom: The author standing on the historical façade of the original Charlotte Mint, now used for the Mint Museum Randolph in Charlotte, North Carolina.

begin operation. The New Orleans Mint was authorized to produce both gold and silver coins. The branch mints were placed "under the control and regulation" of the director of the Mint, with the approval of the Secretary of the Treasury. This was the first time Congress gave the Treasury Department supervisory authority over the Mint.

The cornerstone was laid for the Charlotte Mint building on January 8, 1836, and coining operations commenced on December 4, 1837. William A. Strickland, a noted Philadelphia architect who also designed the original Philadelphia Mint, designed the building in Federal architectural style. It originally stood on West Trade Street and cost $29,800. Between 1838 and 1861, the Charlotte Mint coined more than $5 million in gold coins.

When the Civil War commenced in 1861, the building was repurposed into a Confederate headquarters and hospital within 24 hours of North Carolina leaving the Union. After the war concluded, the building became a local assay office (1867-1913), as well as a headquarters for local organizations. In 1933, it was dismantled and rebuilt in Charlotte's Eastover neighborhood for use as the state's first art museum, which opened in 1936. It maintains this role today as Charlotte's Mint Museum Randolph.

The decline of North Carolina's gold production began in the 1830s. During the 1850s, the receipt of gold at the Charlotte Mint dropped by two thirds. The Civil War largely stopped the commercial production of gold. The mines were used in the war effort, largely as a source of sulfur and lead — materials that could be used for ammunitions and medicine. Post-war efforts failed to produce a profitable operation for the miners.

Although Gold Hill and other placer operations in the state re-started production in the 1870s, gold mining did not take hold as in the earlier days. New machinery and methods (e.g. chemical processes) were put into operation at some of the older mines in the second half of the 19th century, but to no long term avail. However, even in the 1900s some production continued, and Gold Hill was the state's largest 20th century mining operation. Gold production largely ceased in the 1910s, except for a brief flurry during the 1930s Depression, as investors still desired the mines, waiting for gold prices to rise enough to make production profitable again.

The estimated value of gold recovered from North Carolina since 1803 reached over $1 million a year at its peak, with production estimates fluctuating widely between $25 and $100 million. It is known that $17.5 million worth of North Carolina gold went to the three mints: Philadelphia, Charlotte and Bechtler. However, due to a number of factors — including theft and tax avoidance — the actual total of the state's gold production is unknown.

By 1849, many prospectors and their families involved in the North Carolina rush left the area to travel to California to participate in that gold rush. They brought with them many of the lessons learned and technologies developed in North Carolina. $

Andrew Schmidt is a volunteer docent at the Museum of American Finance. He visited the Reed Mine and the Mint Museum Randolph in Charlotte for this article, which is his first to be published in Financial History.

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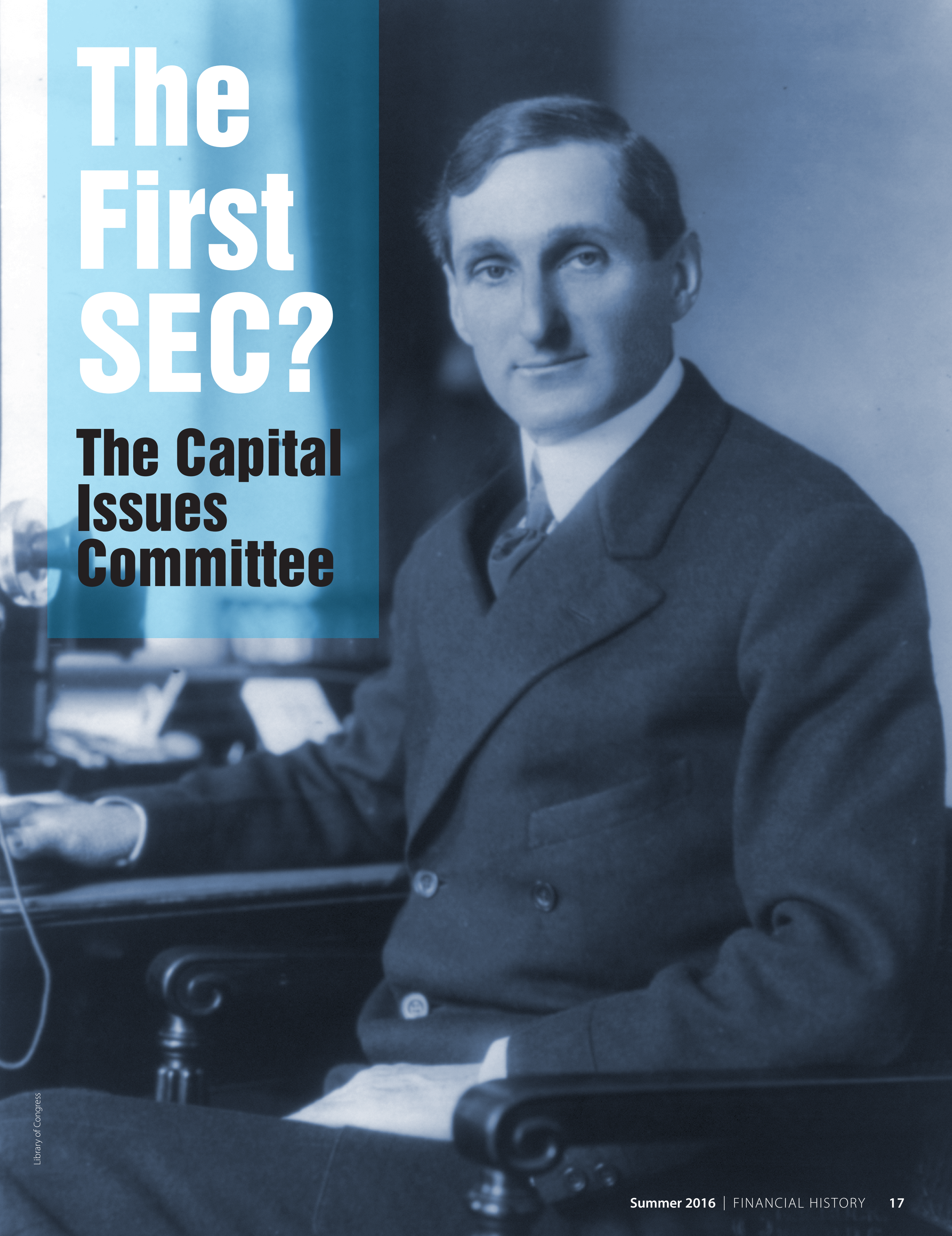
The First SEC?

The Capital Issues Committee



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By Jerry W. Markham

The Securities Act of 1933 is commonly viewed as the first statute that required review by the federal government of stock and bond issues before their sale to the public. That claim is not entirely justified.

A Capital Issues Committee (CIC) that was created by Treasury Secretary William G. McAdoo during World War I conducted prior reviews of new securities offerings. Initially, the CIC's reviews were for the purpose of assuring that capital was not diverted into activities unnecessary for the war effort. However, after operating for only a few months, the CIC became aware of widespread fraud schemes that were inducing investors to exchange government-issued Liberty bonds for worthless securities. The CIC then began acting as a modern day Securities and Exchange Commission (SEC) by expanding the scope of its review to include a determination of whether new offerings were fraudulent.

The conclusion of World War I ended the role of the CIC, but the committee remained concerned with ongoing Liberty bond fraud schemes. Before disbanding, the CIC recommended that Congress enact legislation that would have required a federal regulator to review new securities offerings with the goal of preventing fraud. Congress ignored that request. Such legislation would have to await the excesses in the securities markets during the 1920s and the onslaught of the Great Depression that led to the enactment of our current federal securities laws.

Secretary McAdoo Creates the CIC

McAdoo became a prominent financial figure during World War I. The son-in-law of President Woodrow Wilson, McAdoo had assumed his position as Treasury Secretary shortly before the creation of the Federal Reserve Board. McAdoo oversaw the Fed's development, and he served as its *ex officio* chairman.

As Treasury Secretary, McAdoo closed the New York Stock Exchange for four months when hostilities commenced in Europe. That closing was thought to have forestalled a panic that would have resulted from a massive stock market sell-off. The concern was that foreign investors would convert their extensive US securities holdings into gold for export. McAdoo also headed the War Finance Corporation, which oversaw financing of America's war effort. With the aid of the Fed, McAdoo's Treasury Department issued some $21 billion in Liberty bonds that were used to fund the war.

Previous page: Treasury Secretary William G. McAdoo, creator of the Capital Issues Committee.

Germany, France and Great Britain imposed governmental controls over private sales of securities after war broke out in Europe in 1914. The private issuance of such securities in those countries was variously regulated to assure that new offerings would not divert capital from war-related needs. The United States followed that same path after it declared war on Germany in 1917.

Secretary McAdoo asked that new stock and bond offerings be submitted to the government for a review of their necessity and compatibility with the war effort. He then directed the Federal Reserve Board to form the CIC to review new private securities offerings for that purpose. This CIC was modeled after an English committee of the same name that was created by the Chancellor of the Exchequer when England entered the war. The English CIC was tasked with reviewing and recommending to the Chancellor whether new offerings of municipal and privately-issued securities should be allowed. Approval was not given unless the securities were deemed essential for war-related needs.

The American CIC was composed of three members of the Fed, and Paul M. Warburg was appointed to chair the committee. He had been instrumental in the creation of the Fed and was the Fed's first vice chairman. Aiding the CIC was a three member Executive Advisory Committee composed of private bankers: Allen B. Forbes of Harris, Forbes & Co. in New York; Frederick H. Goff from the Cleveland Trust Company; and Henry C. Flower of the Fidelity Trust Company in Kansas City.

The CIC appointed subcommittees in each of the 12 Federal Reserve districts to assist its review process. Those subcommittees were headquartered in the offices of the Federal Reserve banks, and they included the chairmen and governors of those banks. Three private bankers with expertise in investment banking were added to each of the district subcommittees.

The CIC generally made the determination of whether an offering was consistent with war-related needs or economically essential. However, in doubtful cases, applications were referred to the appropriate district subcommittee for recommendations on whether approval should be granted. The CIC and its subcommittees did not pass on the "intrinsic merit" of any offering. Rather, the CIC limited its review to determining whether a new issue was compatible with the war effort. Action by the CIC on applications for new offerings took on average only about four days.

Submissions of securities offerings for approval by the CIC were voluntary. The CIC also brought state and municipal governments into the approval process on a voluntary basis. Even though its review process was not mandatory, the CIC's standards for approving new offerings were strict. The committee asked that the construction of all new roads, drainage and irrigation projects be halted unless strategically or economically important to the war effort. The CIC also requested that the construction of churches, schools and non-essential industrial and residential buildings be stopped.

The War Finance Corporation Act

Compliance with the CIC's voluntary review process was widespread and was formalized by the War Finance Corporation (WFC) Act of 1918. The enactment of the WFC Act came only a few months after the founding of the original CIC. It reconstituted the CIC into a seven member body whose members were appointed by the President with the advice and consent of the Senate.

Three of the new CIC members were required to be members of the Fed. The Fed members appointed to serve on the new CIC were: Charles S. Hamlin, the first chairman (then called "governor") of the Fed; John Skelton Williams, who was also the Comptroller of the Currency; and Frederic A. Delano, the uncle of Franklin D. Roosevelt. Delano and Hamlin had served on the original CIC. Private members of the new CIC were: Henry C. Flower and Frederick H. Goff, who had both served on the prior CIC's Executive Advisory Committee; James B. Brown, a banker from Louisville; and John S. Drum,

a San Francisco banker and lawyer.

As was the case for its predecessor, the CIC created by the WFC Act established committees in each of the 12 Federal Reserve districts. The members of district committees consisted of a Federal Reserve agent, the governor of the Federal Reserve bank in each district and three or more private bankers chosen for reason of special qualifications that would assist in the CIC review process. Among the Fed bank governors serving on the district committees was Benjamin Strong. He was the powerful governor of the New York Fed and a renowned international banking figure who would play a leading role in the events that led to the Stock Market Crash of 1929.

The WFC Act authorized the CIC to review all securities offerings in excess of $100,000. The Federal Reserve district committees conducted the initial review of applications for new offerings and then made recommendations to the CIC on whether approval should be granted. The district committees were also assigned the responsibility of discouraging non-essential security offerings.

As was the case for the first CIC, the approval process sanctioned by the WFC Act did not pass upon the legality or the intrinsic worth of the securities being reviewed. Rather, its review process was for the limited purpose of conserving financial resources, labor and material by assuring that capital raising efforts were consistent with the war effort.

The rules of the CIC created by the WFC Act defined "securities" subject to its review process as "stock, shares of stock, bonds, debentures, notes, certificates of indebtedness and other obligations." The CIC asserted that the broadest possible meaning should be assigned to its definition of securities, and its rules required prior review of private, as well as public, sales of securities. The CIC also required review and approval of new issues of indebtedness regardless of their tenor.

Excluded from review were borrowings in the ordinary course of business. The CIC tried to subject bank borrowings in excess of $100,000 to its review but met widespread opposition from the large banks who asserted they could be trusted to avoid unnecessary lending.

Although the WFC Act did not specify whether state and municipal securities were subject to its terms, the CIC's rules required review of such offerings. As did its predecessor, the new CIC asserted that all road construction in the United States must continue to be suspended unless needed for the prosecution of the war. Expenditures for public parks was required to be stopped, as well as construction and improvements of hospitals, waterworks, sewage treatment plants and sidewalks. The prior CIC ban on schoolhouse construction was continued. However, temporary facilities were allowed to ease over-crowding in lieu of permanent structures that would have required larger outlays of capital.

The CIC created an Enforcement Division to assure compliance with its approval process. CIC member John S. Drum headed that division. The CIC also created a Bureau of Examiners to aid it in reviewing applications for new offerings. During its short existence, the CIC reviewed over 3,000 applications for securities offerings valued at some $3.78 billion. About 20% of those applications were denied, in amounts totaling nearly $1 billion. Many other offerings were withdrawn after the CIC raised concerns over their need.

One offering that was rejected involved sales of interests in a "Farmers Service Company" that had no assets or actual business. Another offering that did not meet the CIC's approval involved a scheme to sell $1.8 million of stock for a business that was to build tractors and automobiles. That offering was rejected because the promoter had no business plan for, or experience in, such operations.

The CIC Seeks to Stop Fraud

Just before the war ended, the CIC discovered that fraudulent sales of worthless securities to Liberty bondholders had become widespread. The Liberty bonds had been issued by Secretary McAdoo's Treasury Department to fund the war, and the district Federal Reserve banks managed sales campaigns that had popularized those bonds with the public. However, the yields on Liberty bonds were low, and they were selling at a discount as the war concluded. Among those experiencing a loss from his Liberty bond purchases as the war ended was returning Army officer, Captain Harry S. Truman.

The low yield and discounted prices of Liberty bonds provided an opportunity for fraudsters. They began promoting worthless securities by falsely claiming that their offerings would increase sharply in value and provide higher returns than the Liberty bonds. Investors were urged to swap their Liberty bonds for these worthless securities.

The CIC created "Economic Vigilance Committees" in each Federal Reserve Bank district in order to ferret out and combat this widespread fraud. The committee sought to appoint members to its Economic Vigilance Committees from every city having a population of 15,000 or more. These committees and their members were to report to the CIC any unauthorized sales of securities so that it could act to stop their issuance. However, the conclusion of the war interrupted that effort. The WFC Act required the CIC to be terminated no later than six months after the conclusion of the war, which occurred on November 11, 1918.

The CIC suspended its activities on December 31, 1918. Before doing so, it warned that schools were being set up in various states to train salesmen to sell worthless securities to inexperienced investors in exchange for their Liberty bonds. The CIC thought that a general estimate of $500 million in annual sales of worthless securities to public investors was actually too conservative a figure. It asserted that this "unlicensed and unrestricted traffic is a crevice in our financial structure through which flows the constant torrent of funds in utter wastage. It can and should be stopped; but more than that, it is a source of heavy financial loss to hundreds of thousands who have a right to look to their government for the protection this committee recommends should be given."

The CIC concluded that state Blue Sky securities laws were ineffective in suppressing fraudulent interstate securities offerings. The CIC, therefore, urged that legislation be enacted to regulate the sale of securities on the national level, which had long been the practice of other advanced nations. Indeed, the CIC noted that England had enacted such legislation in 1862.

A gathering of Federal Reserve bank governors and prominent bankers, which was held in Washington, DC shortly after the war » *continued on page 37*

WOMEN ON MONEY

By Ellen R. Feingold

In June 2015, Secretary of the Treasury Jacob Lew announced his plans to redesign a US banknote to feature an historic woman, marking the first major change in the appearance of US paper money in nearly a century. This landmark announcement not only stimulated an unprecedented national discussion around the design of US paper money, but it also provoked an extraordinary national conversation about the significant roles that women have played in the making of the nation.

To mark this historic moment, the National Museum of American History has opened a new display titled "Women on Money." This vibrant exhibit places the redesign of US paper money into a global context and demonstrates that women have appeared on money from ancient times to the present day. These depictions commemorate women's contributions to national and world history and convey national ideals and ideas. Thus the display is organized around three themes: women on international money, women on American money and female figures on money.

Arsinoe II on a decadrachm coin, Egypt, third century BCE.

WOMEN ON INTERNATIONAL MONEY

One of the first historic women to appear on money was Arsinoe II, a Ptolemaic queen of Egypt, in the third century BCE. Since then, many national currencies have depicted women either during their lifetimes or posthumously. Female political leaders have appeared on money with the greatest frequency. Powerful women — like Pharaoh Cleopatra VII, Queen Elizabeth I and Empress Maria Theresa — each issued coins with their portraits, helping them assert their influence over nations and empires. Modern female politicians, such as First Lady of Argentina Eva Perón and Prime Minister of India Indira Gandhi, have appeared on national currencies posthumously, commemorating their political leadership and helping to cement their places in their national histories.

In recent years, some governments have begun to reflect on the contributions women have made outside the political sphere and have chosen to honor women's achievements in the arts and sciences. For example, Poland has depicted the Nobel Prize-winning chemist Marie Curie on the 20 zloty note; Italy has honored Maria Montessori, innovator in early childhood education, on the 1,000 lira note; and Fatma Aliye Topuz, a novelist and women's rights activist, has been honored on Turkey's 50 lira note. Moreover, national communities are increasingly recognizing the role of female social activists as catalysts for change. Images of suffragettes, such as New Zealand's Kate Sheppard, have appeared on money as reminders of the importance of equality in a democratic society.

Cleopatra VII on a 80 drachma coin, Egypt, 51–30 BCE.

Elizabeth I on a half pound coin, England, circa 1567–70.

Images: The Numismatic Collection, National Museum of American History, Smithsonian Institution

Indira Gandhi on a five rupee coin, India, circa 1985.

Maria Montessori on a 1,000 lira note, Italy, 1990.

Eva Perón on a 100 peso note, Argentina, 2012.

Kate Sheppard on a $10 note, New Zealand, 2013.

Martha Washington on a $1 silver certificate, United States of America, 1886.

WOMEN ON AMERICAN MONEY

Although women have regularly appeared on money around the world, historic women have rarely been included on money issued by the US government. Since the federal government began issuing paper money in 1861, male historic figures have almost exclusively enjoyed this honor. Pocahontas and Martha Washington are the exceptions, with both appearing on US paper money for a relatively short period in the 19th century. Susan B. Anthony and Sacagawea made similar appearances on the one dollar coin in the late 20th century, but their coins are not as widely used as the one dollar note depicting President George Washington.

In 2015, a social movement called "Women on 20s" brought the limited appearance of women on American money to the attention of the public. This grassroots organization helped to initiate a national conversation about the role of women in American history and galvanized public support for the Treasury's planned redesign of US banknotes.

In April 2016, Secretary Lew announced that the new $5, $10 and $20 notes will feature eight historic American women. Abolitionist Harriett Tubman will be featured with a portrait on the $20 note; suffragists Lucretia Mott, Sojourner Truth, Susan B. Anthony, Elizabeth Cady Stanton and Alice Paul will appear marching together on the $10 note; and Marian Anderson and Eleanor Roosevelt will be depicted on the steps of the Lincoln Memorial the $5 note.

Sacagawea on the face of the $1 coin, United States of America, 2000.

Idealized African women at a market on a 1,000 franc note, French Equatorial Africa (modern Central and Western Africa), 1963.

Peace depicted on a $10 dollar Treasury note, United States of America, 1864.

Liberty depicted on the $20 "1933 Double Eagle" coin, United States of America, 1933.

FEMALE FIGURES ON MONEY

More often than historic women, idealized, allegorical and mythological female figures have appeared on money as symbols of ideals, values and beliefs. They are effective tools of communication for governments because they can convey meaningful, and sometimes complicated, concepts on small and familiar objects. As an alternative to depicting potentially divisive political leaders, allegorical figures can promote a sense of national unity around a shared idea, such as freedom.

Thus, many nations depict the idea of freedom as the female figure Lady Liberty. She has appeared on American coinage in a variety of poses and styles since the US Mint produced its first coins in 1792. Justice, victory and peace are also conveyed through the female form on notes and coins.

Many nations also include images of idealized women on their money, communicating national ideals and conveying the essential roles that women play in the marketplace, home and community. Some countries even personify the nation itself as a woman. For example, Great Britain uses the figure Britannia as the allegorical representation of the British nation. She is typically depicted as a protective figure with a trident and shield and appears on both British coins and notes.

In addition, some nations, both in ancient history and the present, depict female mythological and religious figures in an effort to encourage a particular set of religious beliefs, or to promote a feeling of shared cultural heritage.

When America's new $5, $10 and $20 notes enter circulation, the women they depict will take their places alongside the many women who have appeared on money over the last two millennia. The new notes will not only commemorate their contributions to the nation, but also serve as evidence of the historic national conversation in 2015 and 2016 about the role of American women in US and world history—and a reminder of the many women that are still deserving of such an honor. $

Ellen Feingold is the curator of the National Numismatic Collection at the Smithsonian Institution's National Museum of American History. She recently curated "Women on Money" and "The Value of Money." Both exhibits are open to the public indefinitely. This article first appeared on the National Museum of American History's blog, O Say Can You See, at americanhistory.si.edu/blog.

From the Dustbowl to the

Federal Reserve

50 years ago, **Andrew Brimmer** broke the color barrier at the Fed

By Gregory DL Morris

As voters consider the possibility of the first black President in US history being succeeded by the first woman President in US history, that socio-political change would reflect a similar series of changes that took place on the Federal Reserve board decades earlier. Fifty years ago, Andrew Brimmer became the first black member of the Fed's Board of Governors. He served until 1974. Four years later, Nancy H. Teeters, previously chief economist for the House Budget Committee, became the first woman to serve on the Fed board.

In Brimmer's brief eight and a half years on the board, he became known as an expert on international monetary policy, according to the Fed's official biography. From the start he joined other tight-money members on the board in supporting a gradual increase in interest rates to fight inflation. He was also a man of perspicacity. When Congress raised taxes and cut spending to curb inflation, he was one of the first board members to call for the reduction of interest rates.

In later years, he used his position on the board to draw attention to the economic plight of black Americans. Brimmer left the Fed before the end of his 14-year term to join the faculty of Harvard Business School. He taught there for two years before founding his own consulting firm, Brimmer & Company.

From 1995 to 1997, Brimmer led the District of Columbia financial control board, which Congress created to manage the city's troubled finances. His daughter, Esther Brimmer, is a professor of international affairs at George Washington University in DC.

The Federal Reserve Board with Andrew Brimmer (back row, second from right), 1970.

Bettmann

The Fed has had two black governors since Brimmer: Emmett Rice, nominated by President Jimmy Carter in 1979, and Roger Ferguson, nominated by President Bill Clinton in 1997.

According to Brimmer's obituary in *Bloomberg*, Ferguson said in a 2002 speech to college students that, as a teenager growing up in Washington in 1966, he followed newspaper accounts of Brimmer's barrier-breaking appointment and, in the process, "became absolutely fascinated with economics and with this institution, the Federal Reserve."

Brimmer served on the Tuskegee University board of directors from 1965 to 2010 and as the board's chairman for 28 years, making him the longest-serving chairman in the school's history. The institute's business school building is named for Brimmer.

He published several books, including *Life Insurance Companies in the Capital Market* (1962), *The World Banking System: Outlook in a Context of Crisis* (1985) and *Trends, Prospects & Strategies for Black Economic Progress* (1985).

Brimmer was born in Newellton, Louisiana, in 1926. He was the son of a sharecropper and had no choice but to attend segregated schools. He served in the Army for just a few months at the tail end of World War II.

In an interview with the *Harvard Crimson* in 1974, Brimmer described his journey from the South in the context of US history. "I was part of the same outward-bound stream of people — literally thousands of them — that had migrated out of the area since World War I, although interrupted by the Depression, of course," he said. "It was Steinbeck's dust bowl of *The Grapes of Wrath* — Oklahoma, Arkansas, northern Louisiana. There were very few opportunities."

After the brief stint in the military, Brimmer attended the University of Washington, where he earned both Bachelor's and Master's degrees in economics in 1950 and '51. Upon completing the latter, Brimmer received a Fulbright scholarship to study in India, and in 1952, he began attending Harvard University. He received his doctorate there in 1957, concentrating in monetary economics and international trade.

Hulton Archive / Getty Images

Andrew Brimmer broke the Federal Reserve Board's color barrier in 1966.

While studying, he was also teaching. Brimmer held several fellowships and assistantships at different universities. During that time, his association with the Fed began: From June 1955 through August 1958, Brimmer worked as an economist with the Federal Reserve Bank of New York. From 1956 to 1957, he served on a three-man mission to advise the Sudanese government on the establishment of a central bank.

From 1958 to 1961, Brimmer was an assistant professor of economics at Michigan State University. He also taught at the University of California and City College of New York. In 1961, he joined the Wharton School of Finance and Commerce at the University of Pennsylvania. He took a leave of absence in 1963 when he was appointed deputy assistant secretary for economic affairs at the US Department of Commerce. On February 28, 1966, President Lyndon Johnson nominated Brimmer for the Fed board.

According to *Bloomberg*, he became a deputy assistant secretary of commerce under President John F. Kennedy. In nominating Brimmer as a Fed governor on February 26, 1966, Johnson said, "He is a man of wide professional experience and great personal integrity, a man of moderation whose brilliance is combined with a sense of fair play that I believe will enable him to serve with distinction."

The Senate Banking Committee endorsed the nomination without dissent, and 11 days after his name was proposed, in the East Room of the White House with Johnson looking on, Brimmer was sworn in by Fed Chairman William McChesney Martin Jr. With the addition of Brimmer, the seven-member Fed board had, for the first time, a majority of professional economists, according to *The New York Times*. Nevertheless, the lead story in the next day's *Times* carried the headline, "Johnson Appoints Negro Economist to Reserve Board."

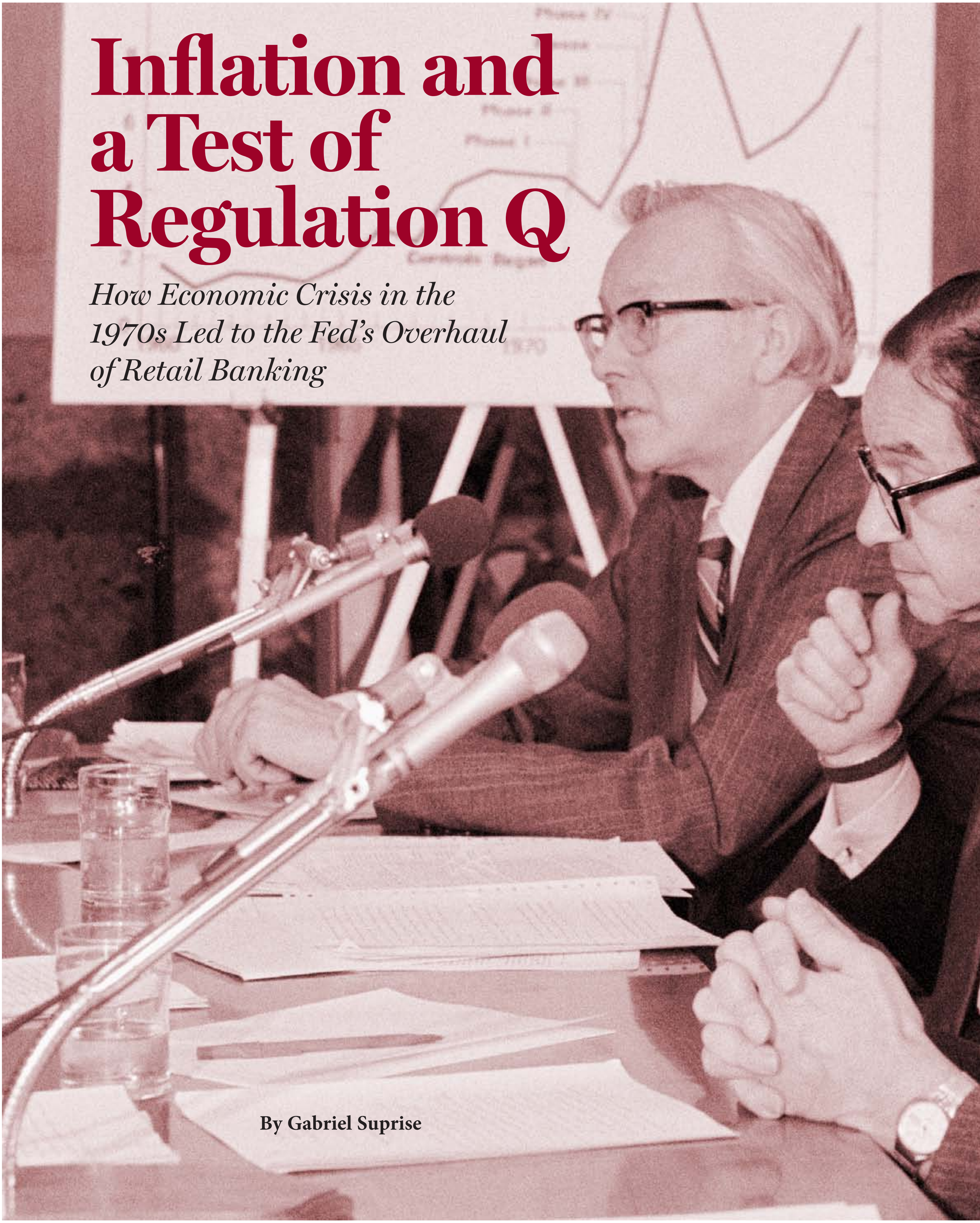
Toward the end of his tenure at the Fed, Brimmer became a vocal critic of the economic conditions of black Americans. "I do feel that the economic plight of blacks is a serious matter," the *Times* quoted him in a 1973 article. "So I bring the same economist's tool kit to that subject as other economists bring to examine other national economic problems."

Brimmer conducted some pioneering research into income and wage disparities between white and black Americans, issues that have come to the fore again in recent years. His public comments on black America, according to the *Times*, included references to black-owned banks as "ornaments" and to the "fallacy of black capitalism."

He said that black-owned banks seemed focused on investing deposits in US securities, not in their own neighborhoods, the *Times* reported. "Perhaps inadvertently," he said, the banks "may be diverting resources from the black community into the financing of the national debt."

In addition to his professional work post-Fed, Brimmer was a member of many organizations, including the American Economic Association, the American Finance Association, the Association for the Study of Afro-American Life and History, the Council on Foreign Relations, the National Economists Club, the American Statistical Association, the Society of Government Economists and Omicron Delta Epsilon. Brimmer died in 2012. $

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research (www.enterpriseandindustry.com) and an active member of the Museum's editorial board.



Inflation and a Test of Regulation Q

How Economic Crisis in the 1970s Led to the Fed's Overhaul of Retail Banking

By Gabriel Suprise


Bettmann

The United States has long scrutinized how banks and savings institutions attract customers with lending rates and the interest-bearing capacities of accounts offered for checking and saving. The safety of consumer accounts played a major role in shaping the regulatory landscape of US banking and finance following the Great Depression, especially as concerns of safety and stability were elicited in the Banking Act of 1933, otherwise known as the Glass-Steagall Act. What happens, however, when the legislated interests of consumer protection, safe banking and monetary control backfire when put under pressure and actually become detrimental to the health of the US financial system?

As it turns out, quite a bit emerged from the crisis that spread through the US economy in the 1970s that commercial banks, mutual savings banks and thrifts endured with difficulty: not only did the government pass some of the most bipartisan measures of deregulation in the industry to date to save these institutions from collapse, but financial innovation, changes to the membership structure of the Federal Reserve system and a huge consolidation within the financial services industry resulted from the crisis through a process of comprehensive deregulation and better accessibility for consumers to find ways to save and borrow.

The Great Depression and the Imposition of Regulation Q

Financial activity prior to Wall Street's collapse in 1929 was characterized by prevailing notions of fiduciary recklessness, financial institutions gambling with investor money and lax protocols for oversight within the banking industry — all of which could have been major contributing causes to the Depression itself. Regardless of the reasons, Congress passed the Glass-Steagall Act in 1933, which sought to rein in risky activity bankers had become famous for by breaking up retail banks and investment banks. It also established a mechanism known as Regulation Q, among other provisions.

Previous page: Past chairmen of the Council of Economic Advisers testify before the Senate Banking Committee on anti-inflation policies, 1980.

Regulation Q served as a ceiling that banks, thrifts and mutual savings institutions were required to observe when setting interest rates they could offer to consumers seeking both time accounts and demand accounts with different institutions. This emerged as a component of Glass-Steagall due to the belief that prior to the Depression, many banks were competing with each other for customer deposit accounts, which with respect to their ability in managing risk for their liabilities, created instability. Moreover, if interest rate ceilings were set, the Federal Reserve would have a better grasp on the macroeconomic impacts stemming from the loans issued in the housing market and the broader availability of money being loaned.

By imposing ceilings at different levels, the Federal Reserve hoped to induce consumers to keep their savings accounts at thrifts while simultaneously holding checking accounts at commercial banks. Starting in 1966, the Fed imposed specific ceilings on interest rates above the current market rate; given that interest paid on various account types had been increasing, these ceilings applied to accounts offered at thrifts, credit unions, commercial banks, savings & loan associations and mutual savings banks alike. So, what went wrong?

Economic Malaise, Instability and Innovation in the 1970s

After the Federal Reserve imposed interest rate ceilings, savers and borrowers alike began to suffer from the fallout of the ill-timed restrictions' impact on their finances, as well as the prevailing macroeconomic conditions that defined much of the 1970s. In the early part of the decade, inflation began to spike as the domestic oil industry sputtered and the global economy reeled from the Organization of Petroleum Exporting Countries (OPEC)'s decision to embargo shipments to several western countries — starting an oil crisis that sent the inflation rate soaring above 5% in countries like the United States and the United Kingdom.

As the economic downturn worsened in the later part of the decade, consumers began to feel the impact this had on their deposits with banks, thrifts and savings & loans associations, given that the rates imposed on time deposits (accounts for certificates with fixed maturities) were not bearing interest at a rate that at certain points was competitive with inflation and turned into an unintended form of financial repression.

In particular, thrifts were put at a disadvantage; not only were they not allowed to offer interest on certain accounts for customers, but also the model of business they utilized relied heavily on short-term deposits to finance the longer maturity, higher yield time deposits that customers held with them and ceilings on short-term accounts disadvantaged short-term savers. Additionally, the flaw in the design for interest rate ceilings emerged as consumers realized that borrowers did not benefit as they were supposed to, given that lenders reduced the mortgages issued and indirectly curbed housing growth.

Another prevailing problem at this time was the relationship that many financial institutions maintained with the Federal Reserve itself, and whether they were governed under state charters or federal charters. While federally chartered institutions had access to the Fed to lend and loan, state-chartered companies were able to keep reserves on a state level which they earned interest on — something Federal Reserve requirements struggled to make enticing. To make matters worse, the Federal Reserve federal funds rate increased substantially over the course of the 1970s, leading smaller banks, thrifts, savings & loans associations and mutual savings banks at a disadvantage for borrowing and lending.

As such, many of the banks that had originally registered with the Federal Reserve left to evade the interest restrictions and reserve disadvantages, leaving Federal Reserve membership in shambles. After World War II, 50% of banks registered with the Federal Reserve Bank as members held approximately 90% of the nation's cash deposits. By the mid-1970s, roughly 40% of the nation's banks maintained Federal Reserve membership, and the share of deposits they represented on the whole dropped to 60%.

Interestingly, the conundrum that financial institutions faced in the wake of inflation, Federal Reserve interest rate hikes, and ceilings on deposit accounts

spurred companies to adopt financially innovative investment vehicles that utilized a mixture of regulatory "creative compliance," as well as financial engineering to generate better returns for their customers and to attract new business in the face of rising costs. Principal among the emerging products were the negotiable on withdrawal (NOW) accounts and the money market certificate.

NOW accounts benefitted depositors by acting like time deposits, but banks, thrifts and savings & loans associations could offer transaction accounts with interest, which skirted the Regulation Q requirements that barred offering interest on demand accounts (e.g. deposit accounts without fixed maturities). Because these were not subject directly to the interest rate ceilings under Regulation Q, customers benefitted by way of higher yields and having the ability to withdraw money on demand.

On the other hand, money market certificates emerged as a way to earn favorable, market-based yield with fixed maturity deposits in fixed sums. These instruments gained popularity due to the fact that they issued an interest rate pegged to six-month Treasury certificates with the same maturity date and a minimum deposit of $10,000. Similarly, mutual funds — which were competing with banks and thrifts for investor business from would be depositors-turned-savers, began offering money market mutual funds, which pooled investor cash into a fund to generate higher yields on government bonds, commercial paper and other forms of debt without the oversight (or FDIC protection) of the government. In the face of the rising pressure that banks and thrifts faced against inflation, financial innovation and regulation, the government needed to act in order to right the course moving forward.

The Beginning of Bank Deregulation in Post-War America

Realizing the need to act swiftly, the Carter administration summoned a task force to review the state of the banking, thrift and savings & loan associations' health in the US, as well as how to address these rising problems affecting the economy. In August 1979, the administration's Inter-Agency Task Force on Regulation

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This is not only a significant step in reducing inflation, but it's a major victory for savers, and particularly for small savers. It's a progressive step for stronger financial institutions of all kinds…

— President Jimmy Carter

Q offered an official report which recommended several key measures the government should effectuate through legislative means, including liberalizing the market for higher yielding account products, increasing Federal Reserve oversight of financial institutions and lifting interest rate ceilings. Specifically, the report noted the importance of the financial innovation taking place in the market, stating:

> Traditionally, savings institutions relied on their interest-rate differential on deposits to offset their inability to offer transaction accounts… The attractiveness to the public of interest-bearing transaction accounts has been amply demonstrated. Indeed, the very rapid growth of the money market mutual funds is attributable in part to the fact that balances can be withdrawn by means of a check-like investment.

These recommendations passed both the House and the Senate, and they were signed into law on March 31, 1980 by President Carter as the Depository Institutions Deregulation and Monetary Control Act (DIDMCA). Upon signing the bill, President Carter noted the impact the measures would have on easing savings capacities for smaller investors, access to financing on behalf of banking and savings institutions and liberalization of the financial services offerings available to the industry. He stated:

> This is not only a significant step in reducing inflation, but it's a major victory for savers, and particularly for small savers. It's a progressive step for stronger financial institutions of all kinds…our banks and savings institutions are hampered by a wide range of outdated, unfair and unworkable regulations. Especially unfair are interest rate ceilings that prohibit small savers from receiving a fair market return on their deposits. It's a serious inequity that favors rich investors over the average savers. Today's legislation will gradually eliminate these ceilings and allow, through competition, higher rates for savers.

The act effectuated several key changes which took place over the following several years. First, interest rate ceilings via Regulation Q were gradually lifted until 1986, when they were completely removed. Financial institutions of all types could now offer the NOW account, providing an alternative to traditional demand and time deposit accounts. All financial institutions that accept deposits were required under the Monetary Control Act to maintain reserves with the Federal Reserve, which provided them access to funds and discounts, albeit with some cost when compared against market rates. But did these changes actually help?

As the DIDMCA went into effect, inflation in the US reached the incredible height of 13.5%, and the Federal funds rate reached 18.90% by the end of the year. Even as thrifts, savings & loans associations and mutual savings banks were able to offer a more diverse range of accounts to consumers — in addition to taking on larger investments » *continued on page 39*

When All Else Fails

The Evolution of Customer Asset Protection After Brokerage Bankruptcy

By Ronald H. Filler

On "Black Monday," October 19, 1987, the Dow Jones Industrial Average dropped 22%. It was an unusually volatile trading day in which the US stock market experienced its largest single-day decline. The market volatility caused many brokerage firms to fail and resulted in losses to customers beyond the declining price of their holdings. These losses were caused by the bankruptcy of their brokerages.

Over the past 80 years, laws and regulations have evolved to provide greater protections to customers of US brokerage firms. However, they are not always effective, particularly on volatile trading days.

The US Congress and market regulators want all US residents to open bank accounts, and to feel comfortable that their funds deposited in banks are protected. To that end, the government provides insurance protection on bank account deposits through the Federal Deposit Insurance Corporation (FDIC). Thanks to FDIC insurance, people no longer need to fear the "Wild, Wild West" stories of bank robbers fleeing with their deposits.

However, banks can freely use customer deposits for legitimate business reasons, such as making auto and small business loans, issuing home mortgages, etc. To support these banking arrangements and to encourage people to deposit their funds in a bank account, the FDIC program provides important insurance protections to bank customers in the event their bank is robbed, or fails for any reason.

Historically, FDIC insurance topped out at $100,000, but it was increased in 2008 to $250,000. For married couples, the $250,000 ceiling applies to each spouse's account and a joint account in their names, as each account is for a different beneficial owner. Therefore, for singles the maximum coverage is $250,000, but for married couples it could be as high as $750,000. If a person has more cash than is covered by these ceilings, he or she should open accounts at multiple banks.

The same is true for stock brokerage accounts. The US Securities and Exchange Commission (SEC) has adopted specific regulations that protect customers who fully pay for their securities (SEC Rule 15c3-3), but stock brokerage firms also use customer funds and securities for other purposes, especially when customers buy stocks on margin. Under these circumstances, the Securities Investor Protection Corporation (SIPC) program caps out at $500,000 (no more than $250,000 in cash) for a single person, but it also expands its insurance coverage for married couples, similar to the FDIC program.

There are exceptions to these rules, however. An example from recent financial history is the Bernie Madoff case. Madoff stole more than $50 billion from his stock customers in an elaborate Ponzi scheme. Several court cases resulted when his scheme was unraveled. The courts held that many of Madoff's customers could not receive additional insurance coverage if they had previously withdrawn amounts from their accounts with him over the years.

For example, if someone had deposited $700,000 with Madoff in 1998, let's assume his account increased in value to $1.8 million. If that person withdrew $500,000 in 2004 (leaving a balance of $1.3 million) and tried to claim his $500,000 in insurance coverage once the Ponzi scheme was discovered in December 2008, he would be out of luck. The SIPC Trustee appointed to oversee the Madoff estate said, in essence, that since he had already received more than $500,000 in 2004, he was not entitled to additional insurance coverage.

Futures and Swaps

Unlike bank and brokerage accounts, there is no insurance coverage program for accounts used to trade futures contracts and swaps, even though these financial products are subject to significant laws and regulations. The reason is simple; these markets are primarily institutional in nature, so they do not have the same public policy reason for the insurance as banks and stock brokerage firms, which are primarily retail in nature. The US Congress recognized this as far back as 1936, when it adopted the Commodity Exchange Act and added Section 4d, which required then, and still mandates today, that all futures commission merchants (FCM) — e.g., futures brokerage firms — maintain all customer assets held by the FCM in a "customer segregated" account at a custodian bank.

This concept can be visualized as a ring fence around a specially protected customer asset account. Thus, if the FCM fails for any reason, creditors of that FCM cannot pierce that ring and use the customer assets held inside it to satisfy its debts. Moreover, FCMs cannot commingle its own assets with the customer assets held in this protected account.

Customer segregation has worked quite well over the past 80 years. There have been a few bumps along the way but, for the most part, any time an FCM has failed, its customer assets have been protected. However, if there were not sufficient customer assets in the segregated account — and thus a shortfall occurred — pursuant to the US Bankruptcy Code (the Code), the remaining non-defaulting customers would be treated on a

Bank failure notice from the Federal Deposit Insurance Corporation is tacked up on the New Jersey Title Guarantee and Trust Company's door in 1939. At the time, it was by far the largest bank failure to be paid off by the FDIC since its inception.

Bettmann


The Philadelphia Inquirer

Vol. 317, No. 112

Tuesday, October 20, 1987

Thirty-Five Cents

Dow Dives 508.32 Points In Panic on Wall Street

Navy blasts Iran oil site in retaliation

further confrontation with Iran. ... We consider this matter is now closed.

Billions lost in trading

By Jennifer Lin and Ron Wolf

Hulton Archive / Getty Images

Headline from the *Philadelphia Inquirer* during the Crash of 1987.

pro rata basis, and each would share equally based on the percentage of the shortfall.

For example, if a segregated account should hold $100 million of customer assets, but only $98 million was in the account at the close of a business day, there would be a 2% shortfall. If the customer had deposited $100,000 with that FCM to meet his margin requirements, then he would only receive $98,000 back, taking into effect that shortfall.

Notable Bankruptcies: Lehman, MF Global and Peregrine

There have been some noteworthy FCM bankruptcies in recent years. The largest involved Lehman Brothers, which filed for bankruptcy in September 2008. On Monday, September 15, Lehman had approximately $10 billion in customer assets. By the close of business on Friday, September 19, all futures positions had been either transferred to other FCMs or liquidated, and all customer assets were properly transferred without a dollar lost by any of Lehman's futures customers. It showed that if an FCM follows the applicable laws and regulations, then the system works.

That is not always the case, however. On October 31, 2011, another large FCM, MF Global, filed for bankruptcy with a shortfall of approximately $1.2 billion in customer funds. While MF Global's customers did eventually receive 100% of their assets, they initially got back only 70%. The remaining 30% was transferred to them over the next few years.

A few months later, another FCM, Peregrine Financial Group, filed for bankruptcy with a shortfall of approximately $200 million. That FCM only had $400 million in customer assets, so the shortfall totaled nearly 50%. Because of these two bankruptcies and the resulting shortfalls in their customer segregated accounts, a number of regulatory changes have recently taken place. Most notably, all FCMs and their custodian banks holding customer assets must now report their account balances each morning to the regulators. Thus, the regulators can now compare the amount that should be held in its customer segregated account to the totals shown in its various custodian accounts. If any significant difference occurs, the regulators can take immediate action to determine the reason for the difference. Prior to this rule, FCMs only reported their balances on a monthly basis.

Another major regulatory change requires the CEO or his designee to approve any transfer of 25% or more out of the customer segregated account. Most FCMs today deposit a large amount of their own capital into the segregated account to ensure, to the extent possible, that no shortfall in the account will occur. This FCM capital investment is called the "residual interest." Once the FCM's capital is so deposited into the customer segregated account, it is deemed to be "customer property." This means that if the FCM fails for any reason, its capital so deposited will first be treated to protect the FCM's customers and may not be used by any of its creditors until the customers receive 100% of their assets back.

Assuming the FCM is doing well but wants to transfer back some of its own capital that was held in the customer segregated account, » *continued on page 38*

WORTH ITS WEIGHT

Gold from the Ground Up

"Worth Its Weight" captivates visitors with the many spectacular and unexpected ways gold has influenced our lives — from science and technology to entertainment and pop culture to finance and economics. The exhibit features hundreds of unique and rare objects from more than 40 public and private collections including the Smithsonian Institution, the Tiffany & Co. Archives and the Degussa Collection, as well as the work of jewelry designer Marla Aaron and world renowned jewelry artist Sidney Mobell, who transforms everyday items into dazzling gold and jeweled artworks.

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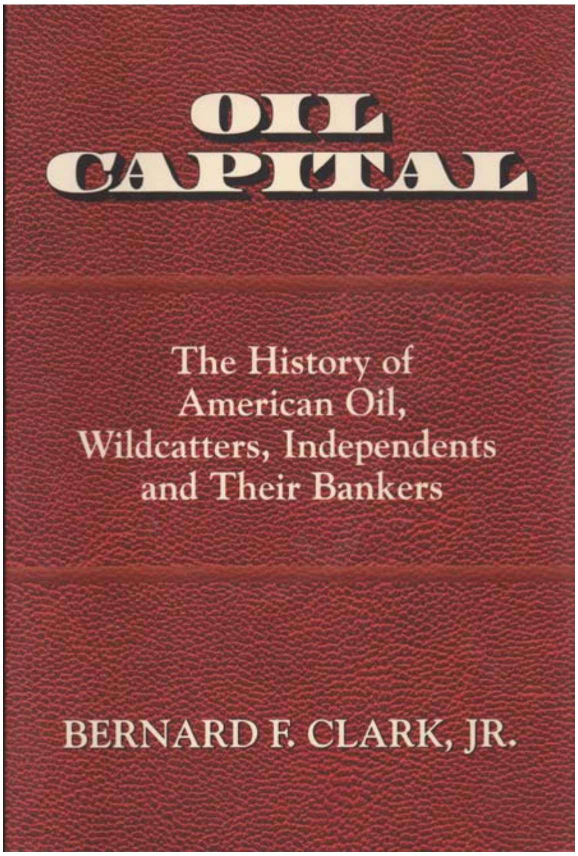
Oil Capital: The History of American Oil, Wildcatters, Independents, and Their Bankers



By Bernard F. Clark, Jr., 2016,
$89.00, with extensive footnotes,
source notes and index

Buddy Clark is to be commended first for taking on this task, and second for doing yeoman's work in relating a completely overlooked aspect of finance and big business that is existentially important to the US and world economy. Of the major sectors of the economy, the two that are most widely known and least understood are oil and banking. Even for readers with an interest in recent financial history, but not specifically the energy industry, the book provides compelling insights into new aspects of the Savings & Loan Crisis of the 1980s and subsequent economic shocks.

Clark is chair of the energy practice at the law firm of Haynes & Boone. His father was CFO of Mitchell Energy, the firm that pioneered unconventional development in the 1980s, and Buddy himself is front and center with one of the largest law firms in the oil patch.

It is essential to note that the US and Canada are the only major global producers of oil and gas where the hydrocarbon resources are not owned by the government. Also, small independent firms dominate domestic exploration and production. The global majors left domestic development decades ago and only tiptoed back in the last few years to buy out or form partnerships with a handful of the most successful independents.

That means that from the earliest days private operators have had to gather capital to back their ventures, from a single wildcat well to multi-billion-dollar drilling programs. In this book, Clark has related in diligent detail from the earliest days how oil men (they were all men), bankers and attorneys developed the present system of reserve-based lending through trial and error. There were few actual trials, but many many errors.

The first and biggest was treating oil (gas was almost always an afterthought) as a resource subject to the feudal right of capture. That lead to what has been variously called a race to the bottom or the tragedy of the commons. There is incentive to produce as much as possible as soon as possible to preclude others from doing the same. The result is permanent damage to the reservoir and recurring damage to commodity markets.

Clark writes cleanly and clearly, if not vigorously. That is high praise for an attorney. Even when telling exciting stories, and there are quite a few of those, he maintains his equanimity, which may, ironically, detract from his cause. Clark in no way has set out to challenge Dan Yergin, the reigning monarch of sweeping narrative non-fiction in energy writing. But there are good stories told here and a little more zip would not have been out of place. There are also whole sections, notably Chapter 4, Elements of Energy Lending, that make for slow drilling. But overall the pace and writing are approachable and sustainable.

The most important concepts are the development of pooling and proration, sometimes forced, to limit production to what the market and reservoir can sustain. The other is reserve-based lending with semi-annual redeterminations by banks. That arose in the '70s and became common in the '80s. The method essentially gives oil and gas developers a credit limit based on the net present value of their reserves — notably not based on their assets. It has proven to be an adaptable and effective approach for both lenders and borrowers.

With ultra-deep offshore and unconventional on-shore development costing many millions of dollars per well, capital requirements will only go higher. In geological terms, hydrocarbons are a limited resource. But for all practical and economic means, the only limits are what consumers are willing to pay at the pump, and what bankers are willing to lend against. This is that story. $

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research (www.enterpriseandindustry.com) and an active member of the Museum's editorial board.

The First SEC?

continued from page 19

Library of Congress

Carter Glass

Library of Congress

President Woodrow Wilson

concluded, sought the retention of the CIC. Those bankers advocated continuance of the CIC in order to allow federal monitoring of capital raising efforts. That review would have had two goals. First, it would have assured that new securities issues were compatible with returning the country to a peacetime footing. Second, the bankers thought that review by the CIC was needed to suppress fraudulent offerings of securities to the public.

Carter Glass, a founder of the Federal Reserve Board, became Treasury Secretary in December 1918. He also sought federal anti-fraud legislation to suppress the sales of worthless securities, but the legislation sought by Glass and the CIC was not enacted.

After a sharp increase in speculation in 1919, President Woodrow Wilson again asked Congress to pass a federal securities law. He thought legislation was necessary to stop excessive speculation and to curtail fraudulent securities promotions that continued to fleece investors of millions of dollars. Several bills were thereafter introduced in Congress to regulate the sale of securities at the federal level, but the effort failed.

The enactment of federal legislation imposing federal regulation over the securities markets would have to await the abuses and widespread fraud associated with the Stock Market Crash of 1929 and the Great Depression. Ironically, both William McAdoo (D. Cal.) and Carter Glass (D. Va.) were serving in the Senate when that legislation was passed in 1933 and 1934.

McAdoo's political and social life were otherwise notable. He had twice been a viable presidential candidate before joining the Senate. He divorced Eleanor Wilson in 1934 and, at age 71, married a 26-year-old nurse. McAdoo fathered nine children from three marriages. He died at the age of 77 unrecognized for his role in laying the foundation for the laws that still govern America's securities markets. $

Jerry W. Markham is a Professor of Law at the Florida International University College of Law in Miami.

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HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. What city in the western United States once served as a US Mint and later became a state capital?

2. Harriet Tubman's portrait is about to replace Andrew Jackson's on the front of the $20 bill. How long has Jackson's portrait been on the $20 bill?

3. What is the sum of all the numbers on a roulette wheel?

4. On average, how long does a $20 bill remain in circulation?

5. In the mid-1800s, brokers on the New York Stock Exchange were fined for standing on chairs or tables on the trading floor. How much was the fine?

6. Electronic transactions accounting for trillions of dollars' worth of securities orders are processed each day through a data center in northern New Jersey. What is it called and where is it located?

7. In what state did the first US gold rush take place?

8. Approximately how much currency does the Bureau of Engraving and Printing produce each day?

9. In what years did the two largest 20th century stock market crashes occur?

10. Who invented the first stock ticker?

1. Carson City, Nevada **2.** Since 1928 **3.** 666 **4.** Four years **5.** $1 **6.** Equinix, in Secaucus, NJ **7.** North Carolina **8.** $300 million **9.** 1929 and 1987 **10.** Edward A. Calahan, in 1867

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the senior-most officer of that FCM must approve that transfer. This is commonly referred to as the "Jon Corzine Rule." Corzine was the CEO of MF Global at the time of its bankruptcy, and a large amount of funds had been transferred out of the segregated account.

There are some key legal distinctions involving the failure of an FCM versus that of a stock brokerage firm. The insolvency of a stock brokerage firm is governed by the Securities Investor Protection Act and Section III of the US Bankruptcy Code. These laws provide the special SIPC insurance coverage noted above. An FCM's bankruptcy is governed by Section IV of the US Bankruptcy Code and Part 190 of the CFTC regulations. Together, they deal with the *pro rata* treatment of the non-defaulting customers of the failed FCM. They also do not treat property of a customer that can be specifically identified as belonging to that customer.

This is not the case for stock brokerage firms that fail. If a customer owns 100 shares of ABC, then he will receive back those 100 shares. On the other hand, if a customer deposits US Treasury bills to satisfy his margin requirements in a futures account, those government securities will be sold and converted to cash, with the customer receiving his *pro rata* share if a shortfall occurs


Bloomberg / Andrew Harrer

Jon S. Corzine, former chairman and CEO of MF Global, testifies before the House Financial Services Committee on December 15, 2011. US authorities were investigating whether MF Global intentionally tapped customer funds to cover the bankrupt firm's margin payments on European government bond trades.

Customer Protection in Global Markets

The industry has learned quite a bit in recent years given these large FCM bankruptcies, but there is more to be done given that today's markets are clearly global in nature. People living in the United States can now easily trade financial products on more than 35 non-US exchanges. Yet, the bankruptcy laws in those countries vary greatly from the US Bankruptcy Code, which has specific provisions dealing with the failure of a stock brokerage firm (Section III) and the failure of an FCM (Section IV). Outside the United States, many countries do not have laws protecting customers of failed financial firms.

What is now urgently needed is for the G-20 countries to devise a plan to harmonize the bankruptcy laws of these countries so that customers of failed financial firms are treated fairly, hopefully with similar, or approximately similar, results. Most of the focus since the financial crisis in 2008 has dealt with how OTC derivatives should be regulated. The G-20 countries are gaining ground on the promise they all made in Pittsburgh in September 2009 to have a more harmonized global regulatory system in place that regulates OTC derivatives. Now, they need to focus on protecting customers of failed financial firms in a more harmonized way. $

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Regulation Q

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in commercial paper, corporate debt and other instruments which they were previously forbidden from accessing — long-term loans and mortgages with locked in low interest rates plagued many thrifts' and savings & loans' balance sheets as they struggled to stay solvent.

The mounting crisis necessitated further action by the government in order to avoid widespread insolvency that would have taken place, which came under the Garn-St. Germain Act in 1982, which the Reagan presidency endorsed. The legislation, which was sponsored by a Republican and a Democrat, respectively, provided a degree of relief that many institutions required by authorizing the FDIC to credit firms which were insolvent or bankrupt, facilitated federal charter registration, allowed financial institutions to merge more easily and expanded the underwriting capabilities of savings & loans institutions.

This legislation stood to ensure that thrifts, savings & loans associations, commercial banks and mutual savings banks were deregulated and rendered solvent — but at a huge price. Many firms were required to merge or were consolidated, dramatically reducing the availability of smaller financial institutions throughout the 1980s. Additionally, the expanded investment capabilities that savings & loans associations were granted under the Garn-St. Germain Act — while originally designed to allow these institutions to remain solvent through short-term financing — led to reckless investments and malfeasance that culminated in the Savings & Loans Crisis by the end of the decade.

In the end, deregulation was not the ultimate solution to the problems plaguing the industry throughout the 1970s and 1980s. While it appeared necessary in order to lift burdensome interest rate ceilings and to allow for greater investment capabilities, it couldn't stop the collapse of the thrift industry and it arguably contributed to these institutions' demise by the start of the 1990s. However, this period of time does shed a bright light on the difficulties that banking institutions faced with post-Depression regulatory policies, as well as how they coped with them using financially innovative solutions. $

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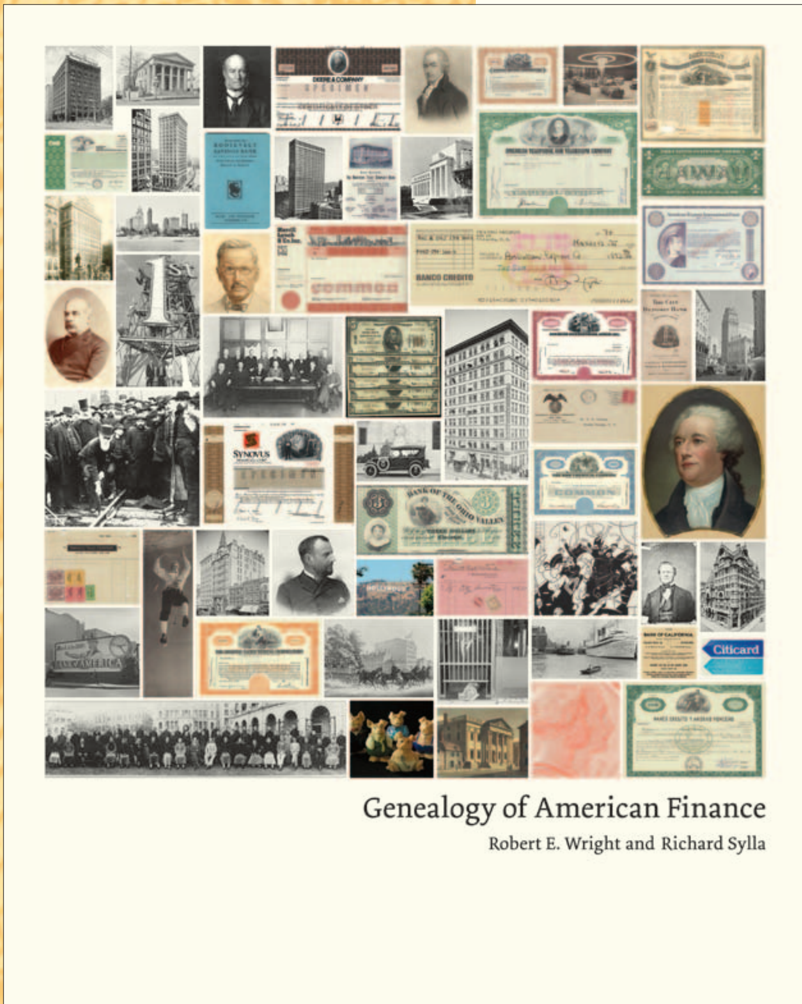

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